

ACCOUNTABILITYTM RATING 2008



Accountability Rating 2008

Methodology

What is the Accountability Rating?

The Accountability Rating™ is a tool for measuring:

- the extent to which companies have built responsible practices into the way they do business
- their accountability to, and engagement with, their stakeholders
- companies' actual impacts on the marketplace, society and environment in which they operate.

The Rating was developed by leading CSR consultancy **csr**network and international think-tank AccountAbility, and launched in 2004.

The Rating aims to:

- promote a strategic and systematic approach to managing corporate responsibility
- help companies improve their accountability by highlighting their strengths and weaknesses and identifying good practices elsewhere
- contribute to the debate about how businesses can help meet society's long-term needs and so inform collective action and public policy development
- encourage healthy 'accountability competition' among rated companies.

Origins

The Accountability Rating draws on initiatives developed by the businesses and networks we have worked with over the years, and from the following frameworks:

- The AA1000 Series¹ including the AA1000 Assurance Standard² and the AA1000 Stakeholder Engagement Standard³, which have been developed through international multi-stakeholder dialogue. They provide the conceptual framework for the Accountability Rating.
- The United Nations Global Compact⁴, which challenges business leaders to apply universal standards in their operations worldwide. It covers four core areas: human rights, labour standards, the environment and corruption.
- The GRI Sustainability Reporting Guidelines⁵ – a set of principles and indicators for reporting on sustainability performance, accompanied by a range of technical and sector-specific guidance notes and supplements. The guidelines have been developed in a global multi-stakeholder process.

1. The AA1000 Series is a set of standards and guidance notes designed to improve the sustainability performance of organisations. The Series includes the AA1000 Assurance Standard and the AA1000 Stakeholder Engagement Standard.
2. The AA1000 Assurance Standard provides guidance on key elements of the assurance process. It is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organisations' sustainability reporting, and their underlying processes, systems and competencies.
3. The AA100 Stakeholder Engagement Standard is a generally applicable, open-source framework for improving the quality of the design, implementation, assessment, communication and assurance of stakeholder engagement.
4. The Global Compact is an initiative of the United Nations, which calls on companies to embrace 10 universal principles in the areas of environment, human rights, corruption and labour standards.
5. The Global Reporting Initiative is a multi-stakeholder initiative to devise, promote and disseminate a generally valid concept for voluntary disclosure of companies' economic, ecological and social achievements.

What do we mean by accountability?

We define accountability as “a company’s ability to explain and justify its actions, and to take responsibility for the consequences of those actions”.

According to the AA1000 framework, an accountable company is:

- **transparent:** open and honest about its actions, the reasons behind them and their impact on people and the environment
- **responsive:** responsive to the concerns of people and organisations (stakeholders) who have the ability to influence, or may be affected by, the company’s business
- **compliant:** adherent to relevant voluntary standards and mandatory regulations.

How do we measure accountability?

The Accountability Rating evaluates companies across four key areas, or ‘domains’. In each of these equally weighted domains, we score companies against a range of criteria. This has the effect of answering a number of key questions.

- **Strategic Intent:** Does the company seek to address important social, environmental and broader economic issues in its core business strategy?
- **Governance and Management:** Are senior executives and the board accountable to stakeholders when setting strategy and formulating policy on extra-financial issues? Are these issues translated into management systems, standard procedures, incentives and performance targets towards specified goals?
- **Engagement:** Does the company engage in dialogue with the people and groups who have an interest in its business, may be affected by it or have an effect on it? Does the company publicly report its social and environmental performance? And are its disclosures subject to credible independent assurance?
- **Operational Performance:** How effective has the company been in implementing its strategies, management systems and engagement mechanisms as indicated by its performance in a variety of social and environmental impact areas.

The Accountability Rating team of expert analysts assesses companies primarily on the information they put into the public domain. This includes their annual financial report, sustainability reports and web disclosures⁶. In the Operational Performance domain, we also consider information published by reliable third parties to assess the degree to which a company has been involved in environmental, social, or broader economic controversies.

Each domain is assessed in two stages:

- Stage one consists of 145 binary (yes/no) questions about the company’s management approach and impacts. A further 30 sector-specific questions are used to evaluate the degree to which sector-specific issues are recognised and addressed by the company. Stage one accounts for 55 per cent of a company’s overall score.
- Stage two, the ‘context assessment’ stage, consists of five questions that probe more deeply into corporate performance. These questions are answered and debated by our senior analysts, who provide comprehensive rationales for each company’s scores on these questions. Stage two accounts for 45 per cent of a company’s overall score.

To ensure consistency of interpretation among members of the Rating team, a formal quality assurance process of crosschecking the scoring is carried out.

The methodology is reviewed annually to capture emerging issues and best practice in corporate disclosure.

Application to the world’s largest companies

Every year, we apply the Accountability Rating to the world’s largest companies – the Fortune Global 100 (‘G100’) as published by Fortune magazine in July. The results are published in Fortune in the fourth quarter of the year.

With the help of partner companies, we also publish Accountability Rating country rankings. In 2008, there will be rankings for the largest companies in Bulgaria, Hungary, Greece, Italy, Portugal, Russia, South Korea and Turkey.

6. This includes companies’ corporate partnership, citizenship, environmental, health and safety and social reporting, as well as the investor relations and corporate governance sections of their websites. We only assess reporting in English. Reports published prior to 15 July 2008 are rated during the period May to end July 2008. Reports published before January 1 2006 or after 15 July 2008 are not included.

Accountability Rating domains

Domain	Key areas evaluated
Strategy	<p>Stage 1 – Analysis of issue recognition: Is the company acknowledging the most important sector-specific issues and impacts that arise from its core business activities? These include:</p> <ul style="list-style-type: none"> ● internal social issues ● environmental issues ● socio-economic issues <p>Stage 2 – Context questions:</p> <ul style="list-style-type: none"> ● How successful are the company's efforts towards product and service innovations that address environmental, social and socio-economic challenges? ● To what extent is the company a proactive leader in working to address major social, environmental and socio-economic issues?
Governance and Management	<p>Stage 1 – Detailed analysis of governance and management activities:</p> <ul style="list-style-type: none"> ● Transparency of business model and strategy ● Transparency of geographic spread of activities ● Governance practices demonstrated by the board of directors ● Management system certifications ● Policies to guide management and employee behaviour in relation to non-financial issues ● Mechanisms to manage joint ventures and investments ● Procedures to ensure responsible sourcing ● Management responsibility for environmental, social and broader economic impacts ● Account of training for managers and other employees in non-financial aspects of performance ● Comprehensive set of management targets ● Measurement of environmental performance ● Measurement of human resource-related performance ● Measurement of socio-economic impacts and performance <p>Stage 2 – Context question:</p> <ul style="list-style-type: none"> ● To what extent does the company recognise and manage material social, environmental and socio-economic impacts within its supply chain and its own operational/production activities?
Engagement	<p>Stage 1 – Detailed analysis of engagement efforts:</p> <ul style="list-style-type: none"> ● Approach to public disclosure ● Existence and quality of third-party assurance ● Transparency of past performance ● Description of the process for stakeholder identification ● Breadth of stakeholder views considered ● Range of stakeholder engagement mechanisms used ● Mechanisms used to determine material issues ● Whistle blowing and grievance mechanisms ● Corporate practice with regard to political involvement and lobbying <p>Stage 2 – Context question:</p> <ul style="list-style-type: none"> ● To what extent does the company demonstrate commitment to engaging with stakeholders in order to identify, discuss and address material social, environmental and socio-economic issues?
Operational Performance	<p>Stage 1 – Detailed analysis of performance covering:</p> <ul style="list-style-type: none"> ● Accidents ● Absenteeism ● Diversity ● Staff turnover ● Training ● Volunteering ● Carbon intensity ● Renewable energy use ● Water use ● Effective philanthropy ● Waste ● Benefits of corporate responsibility initiatives for stakeholders <p>Stage 2 – Context question:</p> <ul style="list-style-type: none"> ● Is the company managing to reduce its negative impacts and create positive impacts, and is it receiving recognition for this from stakeholders?

Limitations

We recognise that our methodology has some limitations. For example:

- we analyse companies' performance based on their public disclosure. Some companies are less accustomed than others to public disclosure, and may not be reporting all relevant good practices.
- some companies may be unable to disclose relevant practices for legal or other reasons
- given the delays inherent in preparation of annual reports, we are looking at a specific point in time of the company's performance; its current accountability performance may be different
- in the Operational Performance domain, part of the assessment is based on media coverage; the media may on occasion fail to cover, or excessively cover, controversial issues relating to some companies.

Accountability Rating scores should therefore be taken as indicative of a company's performance, rather than definitive.

Development of the Rating

This year

The methodology used for the 2008 Accountability Rating has been enhanced as part of a process of continuous improvement. The changes we have made are based on feedback from companies, other organisations and individuals, as well as our experiences of past applications of the Rating and our subsequent observations of the companies assessed.

Based on positive feedback, we have continued the use of the four-domain model introduced in 2007. We have greatly expanded the scope of the Operational Performance domain to include a larger number of key impact areas, while focusing on metrics that are comparable between companies and sectors.

The context questions, introduced as stage two of the assessment in each domain, add further depth. They allow our experienced analysts to make professional judgements about factors relevant to the operations of a specific company.

For the 2008 application of the Rating to the G100, prior to publication of the results, a panel of experts independent of the Rating team will examine the scores given to the G100 companies. If the panel feels any of our assessments does not reflect a company's true level of accountability, we will revisit our evaluation of that company, re-scoring it if necessary.

Upon finalisation, the Accountability Rating scores for the G100 will be compared with data from Swiss investment research and information provider ASSET4. This will enable us to explore correlations and discrepancies between companies' Accountability Rating results and other areas of business performance.

In future

AccountAbility and **csrnetwork** are committed to the ongoing development of the Accountability Rating. We therefore invite feedback from the business community and its stakeholders. We are particularly interested in whether companies find the Rating useful as a learning tool, both individually and in peer networks.

Furthermore, we wish to explore whether such diverse stakeholders as civil society organisations and the investment community will be able to use the Accountability Rating to assess a company's progress in developing responsible practices, and to understand the likely impact of these practices on the company's performance and on society as a whole.

Our aim is to draw this feedback and our own experience of applying the Accountability Rating into further iterations of the underlying method, the selection of data and the analysis.

Please contact us at info@accountabilityrating.com

Potential conflicts of interest

Both AccountAbility and **csrnetwork** have clients, partners and members among the G100. However, in applying the Accountability Rating methodology to these companies, neither organisation considers these relationships, nor any gifts or other influences.

Find out more

Visit our website for the annual results of the Accountability Rating from 2004 onwards

www.accountabilityrating.com

The Accountability Rating founders

csrnetworkTM

making csr a reality

csrnetwork is a leading consultancy dedicated to helping companies worldwide do business in a responsible way. Clients include Airbus UK, ArcelorMittal, Bacardi, BP, The Co-operative Group, Danisco, RWE npower, StoraEnso and Vodafone.

www.csrnetwork.com



AccountAbility

AccountAbility is the international non-profit think-tank whose mission is to promote accountability innovations for sustainable development. AccountAbility's innovations include the AA1000 stakeholder engagement and sustainability assurance standards, the Partnership, Governance and Accountability Learning Network, and the Responsible Competitiveness Index covering the links between responsible business practices and the competitiveness of 108 countries.

www.accountability21.net

The Accountability Rating data partner

ASSET4 provides a new generation of investment research information that, when integrated with traditional financial analysis, enables professional investors to outperform their peers and lower their risk exposure. ASSET4's database and software solutions give clients access to comprehensive investment research information on the economic, environmental, social and governance aspects of corporate performance that are material to the competitiveness and share price of companies.

www.asset4.com

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