

## Background media information

### Report Insights (highlights):

The world's largest companies have a long way to go in demonstrating accountability to their stakeholders. The achievements of the leading companies highlighted by The Accountability Rating® show how this can be achieved.

Overall performance in **stakeholder engagement** is low across the G-100, with only two companies scoring 50% or above. Despite the overall low scores, the fact that 72 companies achieve some score indicates that stakeholder engagement is widely recognised as a relevant aspect of accountability. When the 2003 *Material World* survey was undertaken (by **csrnetwork**), only 31 G-100 companies recognised the issue.

Overall performance in the **Governance** domain was fairly low with an average score of 31%. The North American companies were the lowest scorers in governance, with an average score of 18%, lagging behind Asian companies at 32% and European companies at 41%. The merchandising sector is one of the poorest performers in this domain, scoring an average of under 20%.

**Assurance** had the lowest score of the six domains, with only 15 companies providing external assurance of their sustainability reporting. Notably, seven of these are in the overall top 10 scoring companies. Although there is a growing trend towards external assurance, the focus of it rarely extends far beyond the head office. Comparing these results with those from previous years, it is clear that use of assurance is increasing only very slowly, rising to 15 companies in this year's survey from 13 in **csrnetwork's** 2001 benchmark survey.

### Company Results:

- BP has the highest score at 67%, seven points ahead of the next best performer, Suez. BP performs consistently well in each rating criteria, coming top or second in each domain except stakeholder engagement where it is in the top 20.
- The top 10 companies all exceeded 40% and were: BP, Suez, Royal Dutch/Shell Group (Shell) \*, Unilever, Carrefour, Tokyo Electric Power (TEPCO) Toyota Motor, Hewlett-Packard, Vodafone and Peugeot. These top 10 companies span sectors and geography, although seven are European. Only one company in the top 10, Hewlett-Packard, is US-based.

\* Shell's high performance in the rating may appear surprising given recent revelations. However, its reporting provides evidence of many of the key features the rating is looking for: clearly stated strategies, accountability for sustainability at Board level, comprehensive management systems and policies aligned to the imperatives of sustainable development, comprehensive disclosure of non-financial impacts, assurance and a degree of stakeholder engagement.

The Accountability Rating® will only ever indicate the desired systems, policies, behaviours and controls – no company will ever be immune from malpractice, error or omission. While the details of 'what went wrong' for Shell have yet to fully come to light, malpractice by a very few individuals keeping crucial information under wraps and a corresponding failure in internal financial auditing appear to have been key to the overstatement of its reserves. However, these practices do not detract from the strong corporate codes of conduct and regulatory environment in place, as reflected in Shell's strong performance in a number of areas of the rating.

Criticisms over Shell's activities in Nigeria have also been hitting the headlines again. Clearly, Shell's corporate policy, which emanates from the centre, is failing in terms of its impact on the ground in that specific location, and in reverse it would appear that there is also a failure in the ability of Shell to sense and respond to changing stakeholder concerns around a specific location. In the Accountability Rating we are assessing a company on their global corporate

policies, systems and strategy as presented in their publicly available information, not location specific performance reports.

In essence, we still believe that high scoring companies are less likely to run into problems associated with being unaccountable: their chances of going wrong are lower and their ability to manage risk is greater. After this pilot year of applying the rating to the G-100, we plan to evaluate and tighten the criteria we have used to measure accountability to further examine the links between global corporate policy and local or individual practice.

- The average headline scores achieved by the G100 companies was just 24 out of a possible 100; however, scores around this average were widely distributed between a high of 67 and a low of one.
- Just over half the companies (52) scored in the range of 20% to 40%.
- Only the top five companies achieved more than 50%. They are in order: BP (67%), Suez (60%), Shell (57%), Unilever (53%) and Carrefour (52%).
- Fifty companies scored less than 25%.
- 23 scored less than 10%.
- Fifty companies scored less than 25%, with 23 scoring less than 10%. This group comprised: U.S. Postal Service, SBC Communications, Sinopec, E.ON, McKesson, China National Petroleum, State Farm Insurance Cos, Target, Sears Roebuck, WalMart Stores, Boeing, AmerisourceBergen, Dai-ichi Mutual Life Insurance, Cardinal Health, Kroger, Nippon Life Insurance, Sumitomo Life Insurance, Tyco International, Freddie Mac, Costco Wholesale, Berkshire Hathaway, American Intl. Group and Assicurazioni Generali.

#### **Regional differences:**

The regional differences scores were marked.

- European companies achieved an average score of 31%
- North American companies 16%.
- Asian companies scored an average of 25%, just behind their European peers.

#### **The number of reports produced:**

It is notable that more G-100 companies are producing sustainability reports than ever before. **csrnetwork's** 2003 Benchmark survey of sustainability reporting found that 48 companies produced sustainability reports. In The Accountability Rating<sup>®</sup> survey, we found that 72 companies produced sustainability reports, with 66 producing standalone sustainability reports, four reporting on sustainability on the web (this was sometimes accompanied by a hard copy summary) and two providing sustainability performance information as an integrated part of their annual report (Peugeot and EDF).

#### **Differences between sectors:**

There were also significant differences between sectors:

- Consumer products companies, led by **Unilever** and **Nestlé**, score higher than those from other sectors and average 35%
- Automotives and oil and chemicals come next, led by **Toyota Motor** and **BP** (the overall leader) respectively.
- Financial services and merchandising sectors averaged the lowest scores of 18% and 17% respectively

## Frequently Asked Questions:

### **Q1: What is the focus of the Accountability Rating<sup>®</sup> Survey?**

**A1:** The Accountability Rating<sup>®</sup> is a new tool for modelling corporate accountability. It has been developed by **csrnetwork**<sup>™</sup> and AccountAbility and maps out the crucial realignment businesses must make if they are to create long-term economic value as well as playing their part in sustainable development.

By applying this tool to the Global 100, it provides new insights into the progress being made by the world's largest companies in being held to account for their long-term impact on society and the environment.

Central to the Accountability Rating<sup>®</sup> is its assessment of companies' progress in establishing an approach to accountability that embeds responsible practices at the core of the business. Progress is seen as a function of the underlying links between accountability, strategy and performance.

The Accountability Rating<sup>®</sup> draws on key developments over the last decade, most notably The United National Global Compact, the Global Reporting Initiative, the AA1000 Series, the insights provided by other ratings and the experiences of companies undertaking the difficult task of becoming accountable.

The findings of the survey are presented in Encoding Accountability – The Accountability Rating<sup>®</sup> 2004 report.

### **Q2: What was the aim of the survey?**

**A2:** The Accountability Rating<sup>®</sup> aims to:

- Help companies improve their accountability by learning from each other and understanding their own strengths and weaknesses
- Inform the development of other tools and standards used in measuring accountability
- Contribute to the debate about how businesses can help meet society's long-term needs and so inform collective action and public policy development.

### **Q3: How does The Accountability Rating<sup>®</sup> differ from other surveys?**

**A3:** The initial application of the Accountability Rating<sup>®</sup> has been to the Global 100 (G-100), defined by Fortune Magazine (as the world's 100 companies with the highest gross revenues).

We decided not to pursue the 'best of class' approach adopted, for example, by the Dow Jones Sustainability Indices, or a rating of voluntary submissions, the approach adopted by UNEP/SustainAbility and Business in The Community. Rather, we took the view that, by virtue of their overwhelming impact on global sustainability, a truer overall measure of the state of corporate accountability could be achieved by rating the world's largest companies. Moreover, **csrnetwork** has been rating the public disclosure of this group for five years, thus establishing a unique body of comparative data.<sup>1</sup>

Although reporting is important, it is only one aspect of accountability. Few, if any, of today's other measurement tools tell us how company accountability can contribute to learning and innovation that drives long-term economic value creation aligned to sustainable development.

### **Q4: Is this the first survey published by AccountAbility and csrnetwork?**

**A4:** Both organisations are experienced researchers in their own right; this is the first joint survey produced by the two organisations together. We have partnered to develop a new tool that seeks to measure the key relationships that connect strategy, performance and accountability: all areas integral to the work of both organisations.

**Q5: Are you planning to produce a survey again next year?**

**A5:** Our aim is to draw feedback into further iterations of our approach. On this basis, our intention is to reissue the Accountability Rating® on an annual basis.

**Q6: What was the methodology for the survey?**

**A6:** We applied the Accountability Rating® to the world's largest companies as defined in Fortune's Global 100 listing<sup>i</sup>. We assessed the performance reports of the G-100, specifically their published global annual and sustainability reports<sup>iii</sup>, including web-based reports – and only those that were published in English. While other information may have been available on the company's website, we only assessed this if the company made direct reference to it in its performance reporting. In addition, only a company's global reports have been considered and not those of its subsidiaries. A formal quality assurance process to crosscheck the scoring of reports was carried out to ensure consistency of interpretation.

Reports were rated during the period 2<sup>nd</sup> January and 15<sup>th</sup> March 2004. Thus, the formal cut-off date for reports was 2<sup>nd</sup> January 2004. However, due to the practicalities of reviewing, companies were reviewed against the data available on their web site on the date they were reviewed, i.e. up to 15<sup>th</sup> March. We checked web sites and contacted companies in September 2003 and December 2003, to check for the most up to date reports. Where a report was due out during the assessment period, we ensured that they were reviewed at the end of the schedule. This clearly means that some companies are being rated on 2002 reports, whilst others are being rated on their 2003 reports. This is a natural consequence of the development timetable for this type of rating.

Trends over time have been built by comparison with data from the previous G-100 reporting surveys carried out by csrnetwork<sup>iv</sup>. Due to the change in the composition of the G-100 each year, as some companies move in and others move out, the number of companies in each region and sector varies each year. The full list of companies in the G-100 and their sector are given in Encoding Accountability – The Accountability Rating® 2004 Report.

We recognise that studying a company's performance reporting does not provide a definitive indicator of its accountability. For example, a company may actually have a particular system in place but not report it and so their score in this area would not reflect their true level of accountability (although if this was the case, it might suggest the company's failure to be transparent). In addition, given the delays inherent in preparation of formal annual reports, we are looking at a snap shot of a company's performance some time ago; its current accountability performance may be different.

**Q7: Is the Accountability Rating® saying that companies that score as being 'accountable' are therefore corporately responsible and have a robust corporate social responsibility practice?**

**A7:** No. Accountability is one aspect of a being corporately responsible; it is the bedrock to a fully socially responsible company.

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<sup>i</sup> Most recently csrnetwork's 'Material World 2003 Benchmark Survey of Global Reporting', with the assistance of its partner organisation in the US, Cameron Cole, LLC <http://www.csrnetwork.com/publication.asp>

<sup>ii</sup> G-100 by Revenue as listed by Fortune July 2003

<sup>iii</sup> Including corporate partnership, citizenship, environmental, health and safety and social reports

<sup>iv</sup> Most recently csrnetwork's 'Material World 2003 Benchmark Survey of Global Reporting' <http://www.csrnetwork.com/publication.asp>