

ACCOUNTABILITYTM RATING 2006



2006 Benchmarking Methodology

Methodology

The Accountability Rating™ Explained

The Accountability Rating is a tool for measuring the extent to which companies put responsible practices at the heart of their business.

It was developed by leading CSR consultancy **csrnetwork™** and international think-tank AccountAbility, and launched in 2004. Every year, we apply the Rating to the world's largest companies. The results of this exercise will be published in Fortune magazine.

The Accountability Rating aims to:

- help companies improve their accountability by understanding their own strengths and weaknesses and by learning from each other
- 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.

The 2006 Methodology has been significantly improved to add detail and robustness as explained in this flyer.

Origins of the Accountability Rating

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

- The AA1000 Series^a including the AA1000 Assurance Standards^b and the AA1000 Stakeholder Engagement Standard^c, which have been developed through international multi-stakeholder dialogue, provide the conceptual framework for the Accountability Rating.
- United Nations Global Compact^d, 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.

- GRI Sustainability Reporting Guidelines^e – 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 also been developed in a global multi-stakeholder process.

What do we mean by accountability?

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

According to the AA1000 framework, a properly 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 appropriate voluntary standards and mandatory regulations.

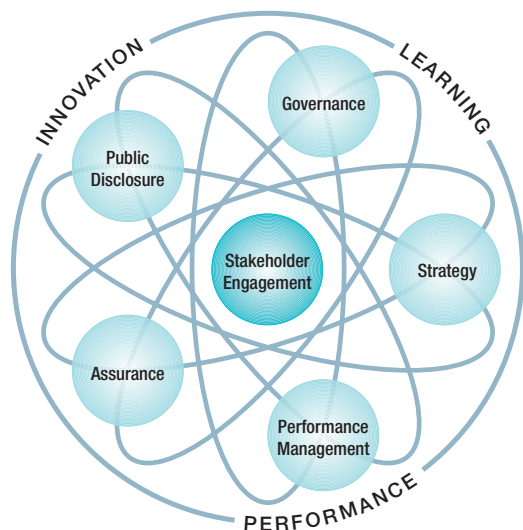
How do we measure accountability?

The Accountability Rating evaluates companies across six key areas, or “domains”. These mirror the AA1000 framework for social, ethical and environmental management.

In each domain, we ask a range of questions about the company in question.

- **Stakeholder Engagement:** Does the company engage in dialogue with people who have the ability to influence, or may be affected by, its business? And does it fully understand and clearly disclose what is important to these people?

- **Governance:** Do senior executives properly consider stakeholder issues when running the company and formulating corporate policy? Are appropriate governance structures in place to promote transparency and accountability?



- **Strategy:** Does the company's core strategy seek to achieve social and environmental targets as well as financial ones? Is non-financial strategy embedded into the company?
- **Performance Management:** Do the company's processes, standards and incentives seek to achieve social and environmental goals as well as financial ones?
- **Assurance:** Does the company secure appropriate independent assurance of its social and environmental management and reporting that is reflective of stakeholder and company priorities?
- **Public Disclosure:** Does the company report thoroughly on its social and environmental performance as well as its financial performance?

We give companies a score for each of the six domains. The stakeholder engagement and strategy domains each have a maximum score of 20. The other four domains each have a maximum score of 15. A company's overall score is out of a maximum of 100.

Together, these domains are the foundations of corporate accountability. They set out the basic ingredients companies need to adopt if they are to create long-term economic value while also playing their part in sustainable development.

Application to the Fortune Global list

We have applied the Accountability Rating for the third year running to the world's largest companies as defined in the Fortune Global[®] listing^e. In addition, in 2006, we have produced separate ratings of the largest regional companies in South Africa, Hungary and Russia. We assessed the performance reports of these companies, specifically their published global annual and sustainability reports^f, including web-based reports – and only those that are published in English. While other information may be available on the company's website, we only assess this if the company makes direct reference to it in its performance reporting.

For the Global Accountability Rating, we consider only a company's global reports and those individual subsidiary companies or business units that impact global operations as the Rating is looking at the approach taken by the company at a global level. Clearly, in a study of this size, boundaries need to be drawn on the information being reviewed. This also ensures greater fairness as we are reviewing the same materials for each company (if of course they produce a CSR or similar report).

A formal quality assurance process to cross-check the scoring of reports is carried out to ensure consistency of interpretation amongst the small review team. Reports published prior to 15th July 2006 are rated during the period May to end July 2006. Reports published after 15th July are not included in the study.

Trends over time have been built by comparison with data from the Accountability Rating 2004 and 2005 and the previous G-100[®] reporting surveys carried out by **csrnetwork**[™], allowing for the fact that the composition of the Fortune Global list change each year.

In 2006, we have rated the 50 largest companies on the Fortune Global list as well as the ten largest companies in five sectors:

- Automotive
- Computer, electronics and telecommunication
- Financials
- Petroleum refining
- Utility/Energy

This focus is designed to provide insight to the unique challenges in each sector.

Accountability Rating® criteria

Domain	Key features sought
Stakeholder engagement (20%)	<ul style="list-style-type: none"> • Identification of stakeholders, systematic engagement with them and assessment of their views on non-financial (economic, social and environmental) impacts that are material • Demonstration that the company has understood their views and responded to them • Institutionalisation of stakeholders into the company's decision-making processes
Governance (15%)	<ul style="list-style-type: none"> • Integration of non-financial issues and performance into Board level decision-making • Clear allocation of responsibilities for non-financial matters • Comprehensive global company policies on non-financial issues • Integration of non-financial performance into annual reporting
Strategy (20%)	<ul style="list-style-type: none"> • Alignment of core business strategy to the imperatives of sustainable development, and commitment to key voluntary frameworks and standards • Clear identification of non-financial impacts arising from the company's core operations • Influence of non-financial impacts on strategic business decisions
Performance Management (15%)	<ul style="list-style-type: none"> • Clear lines of management responsibility • Incentives and training to drive performance on non-financial issues • Management systems for non-financial issues, and product and process innovation to improve non-financial performance
Assurance (15%)	<ul style="list-style-type: none"> • Company's current and future assurance position on non-financial aspects of performance • Scope of assurance of the company's non-financial performance data by an independent third party • Materiality and completeness of the data reported, and responsiveness of the company to stakeholder concerns • Statement of the assessor's independence and competencies
Public Disclosure (15%)	<ul style="list-style-type: none"> • Alignment of non-financial reports with the GRI sustainability reporting guidelines • Material information published on the company's non-financial performance within its reporting

Limitations

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

- some companies are less accustomed than others to public disclosure
- some companies may feel unable to disclose for legal or other reasons
- a company may have a particular policy or system in place but not report it, and so their score would not reflect their true accountability (although, if this was the case, it might suggest the company's failure to be transparent)
- given the delays inherent in preparation of annual reports, we are looking at a snapshot of a company's recent performance; its current accountability performance may be different.

Accountability Rating scores should therefore be taken as indicative, rather than definitive.

Development of the Accountability Rating

1. This year

In response to feedback from companies, other organisations and individuals, and based on experiences from last year's rating processes, a few modifications have been made in some of the domains. These changes have focused on increasing the clarity of individual features within these domains, rather than any changes in the way we seek to measure accountability:

- The 'strategic intent' domain has been renamed the 'strategy' domain and now evaluates not only whether the company is 'talking about non-financial issues', but also if it is acting on these strategic elements.
- The governance domain has been expanded to include a more detailed evaluation of board level governance controls and structures to ensure accountability at the highest levels of the company.
- The assurance domain has been made more challenging and now seeks evidence that company and stakeholder priorities have guided the scope of the assurance and the selected assurance standard.
- The rating now specifically seeks demonstration of stakeholder priorities within each of the domains.

- The relative weighting has been adjusted to reflect the importance of corporate strategy in achieving accountability. The strategy and stakeholder engagement domains are now equally weighted at 20% each (previously stakeholder engagement comprised 25% of the total score and strategy was 15%).
- In 2006, the world's largest 50 companies by revenue will be rated in addition to the largest 10 companies in each of the following sectors: oil and gas, automotive, utilities, financial, and computers, electronics and telecommunications. This shift will allow more emphasis on the challenges within industrial sectors while maintaining comparability with past years. Several country lists (e.g. South Africa, Russia and China) are planned for 2006 to focus on the challenge of accountability for regional companies.

2. 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 it 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. To pursue this feedback, we convened a multi-stakeholder session to solicit recommendations for the 2006 criteria. The changes this year are a result of this engagement. We intend to continue this practice in 2007.

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

Please contact us through:
info@accountabilityrating.com

Potential conflicts of interest

Both AccountAbility and **csrnetwork™** have clients, partners and members among the rated companies. However, in undertaking the Accountability Rating, neither organisation considers these relationships, nor any gifts or other influences. Independence of the Rating is further enhanced by AccountAbility's multi-stakeholder governance structure.

References

- a **AA1000 Series:** The AA1000 Series is a set of standards and guidance notes designed to improve the sustainability performance of organizations. The Series includes the AA1000 Assurance Standard, as well as the AA1000 Stakeholder Engagement Standard.
- b **AA1000 Assurance Standard:** Launched in March 2003, the AA1000 Assurance Standard is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organisation's sustainability reporting, and their underlying processes, systems and competencies. It provides guidance on key elements of the assurance process.
- c The AA100 Stakeholder Engagement Standard (AA1000SES) is a generally applicable, open-source framework for improving the quality of the design, implementation, assessment, communication and assurance of stakeholder engagement.
- d **Global Compact:** An initiative of the United Nations Secretary-General, Kofi Annan, which calls on companies to embrace ten universal principles in the areas of environment, human rights, corruption and labour standards.
- e **GRI:** The Global Reporting Initiative is a multi-stakeholder initiative working to devise, promote and disseminate a generally valid concept for voluntary disclosure of companies' economic, ecological and social achievements. Involved in the project are not only corporations but also organisations from the fields of human rights, labour, accounting and environmental protection. www.globalreporting.org
- f Fortune Global 100 as listed by Fortune July 2006
- g Including corporate partnership, citizenship, environmental, health and safety and social reports

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csrnetwork™

csrnetwork™ is one of the UK's leading corporate social responsibility consultancies. Founded in 1999, our purpose is to help businesses worldwide meet their social and environmental responsibilities.

We have extensive practical experience in implementing CSR practices that reflect stakeholder expectations. Our team of experienced specialists supports our clients in five main areas: benchmarking; stakeholder engagement; strategy and systems development; communications and reporting; and independent assurance of sustainability reports.

Our clients include: Airbus UK, Axa, BP, Co-operative Financial Services, Danisco, E.ON UK, Holcim, Guardian Media Group, Global Reporting Initiative, HP, John Lewis Partnership, Mittal Steel, RWE npower, Scottish Power, Standard Chartered, StoraEnso, TrinityMirror and Vodafone.



www.csrnetwork.com

AccountAbility

AccountAbility's mission is to promote accountability for sustainable development. As a leading international professional institute, our work includes developing innovative and effective accountability tools and standards (notably the AA1000 series), carrying out cutting-edge strategic research that explores best practice for practitioners and policy-makers in organisational accountability, promoting accountability competencies across the professions, and securing an enabling environment in markets and public bodies.

Core to AccountAbility are our members who are drawn from business, civil society organisations and the public sector worldwide. We embrace an innovative, multi-stakeholder governance model that allows our members to govern us, support us and participate in our programmes as well as play a vital role in shaping our direction and work.



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