



goodcorporation™

GoodCorporation:
five years of assessment

Report on GoodCorporation's first years of assessments

In the Autumn of 2006 GoodCorporation reached its fifth birthday and its 200th assessment. This report summarises the main findings from the assessment work conducted by GoodCorporation over this time and draws out the key lessons for corporate responsibility practice on the ground. Corporate responsibility covers all aspects of honest, fair and transparent business dealings with the stakeholders of the business. It covers fair business practices towards employees, customers, suppliers, the community, the environment and towards shareholders.

The GoodCorporation assessment is conducted on the ground inside an organisation. A total of 62 business practices are examined by the assessors. Each business practice is awarded a grade.

The key point of differentiation of the GoodCorporation assessment is that the work takes place inside the client's organisation and includes detailed confidential interviews with employees, customers, suppliers, community groups, NGOs, regulators and shareholders. These interviews are combined with a review of documents and processes to form a view on how well the business practices work in reality.

We believe that you cannot judge the fairness of working practices without taking into account the view of those affected by them. We are interested in how the practices really work on the ground. We believe that our assessments give real insight into the challenges of putting responsible behaviour into practice.

The chart below sets out the four assessment tests that are carried out by our assessors and shows the five grades that are awarded for each business practice.

The assessor checks

that a policy exists

policy documents are reviewed

that a system is in place to implement the policy

systems are examined

that records exist which show that the system works in practice

a sample of records is reviewed

that stakeholders, when asked, agree that the system works and is fair

interviews are held with employees, customers, suppliers, shareholders, community and environmental groups

The assessor awards grades

fail

there is no policy or system, or it has largely broken down

minor non-compliance

there is a policy and systems but it is not always working

observation

there is a policy and system that works but potential improvements have been identified

merit

the policy and system work well

commendation

the policy and system are examples of best practice

By receiving a grade for each business practice, the organisation is able to measure its responsible business practices and to track progress over time. The 62 practices which are assessed by GoodCorporation are summarised in the GoodCorporation Standard, which is available at www.goodcorporation.com.

From the grades awarded in each assessment a database of performance over time has been built. This now includes over 10,000 graded practices.

The data in this report is aggregated to protect the confidentiality of the company's individual grades and no specific company information is disclosed.

The assessed organisations

The table below shows the breakdown of the 200 assessments conducted over five years, which are included in the analysis here.

Location of assessment	
UK	74%
Rest of EU	5%
US	2%
Rest of the world	14%
Global	5%
TOTAL	100%

Most of the assessments have been conducted in the UK, with 5% in the rest of the EU and 2% in the US. The “global” assessments are typically for international companies with headquarters in the UK, US or other developed markets. In these cases, the assessment work is conducted in a number of locations in different countries. The organisations are provided with a set of grades reflecting their overall performance, based on a combination of local gradings. The headline data has been used in this analysis.

The “rest of the world” figures reflect assessments carried out in a range of emerging markets. This report contains data from 33 countries, reflecting the international nature of the assessment work.

The organisations assessed are split quite evenly between large and small as the table below shows.

Size of assessed organisation	
Fewer than 50 employees	53%
Greater than 50 employees	47%
TOTAL	100%

This has allowed us to draw some interesting conclusions about how small companies perform compared to larger organisations.

The organisations are also varied with a mix of large listed companies, smaller private companies and a range of not for profit bodies.

Type of organisation	
Large listed	34%
Private company	52%
Not for profit	14%
TOTAL	100%

It is important to emphasise that the organisations that have been assessed by GoodCorporation are ‘self-selected’, that is the companies have asked GoodCorporation to conduct an assessment. Therefore the conclusions in this report cannot be treated as representative of the general business population.

The aim of this analysis is rather to see how our client organisations have fared and to see what general lessons can be drawn from their experiences. The sample has some bias firstly because many of the organisations that have approached GoodCorporation seeking assessment are, in fact, very good.

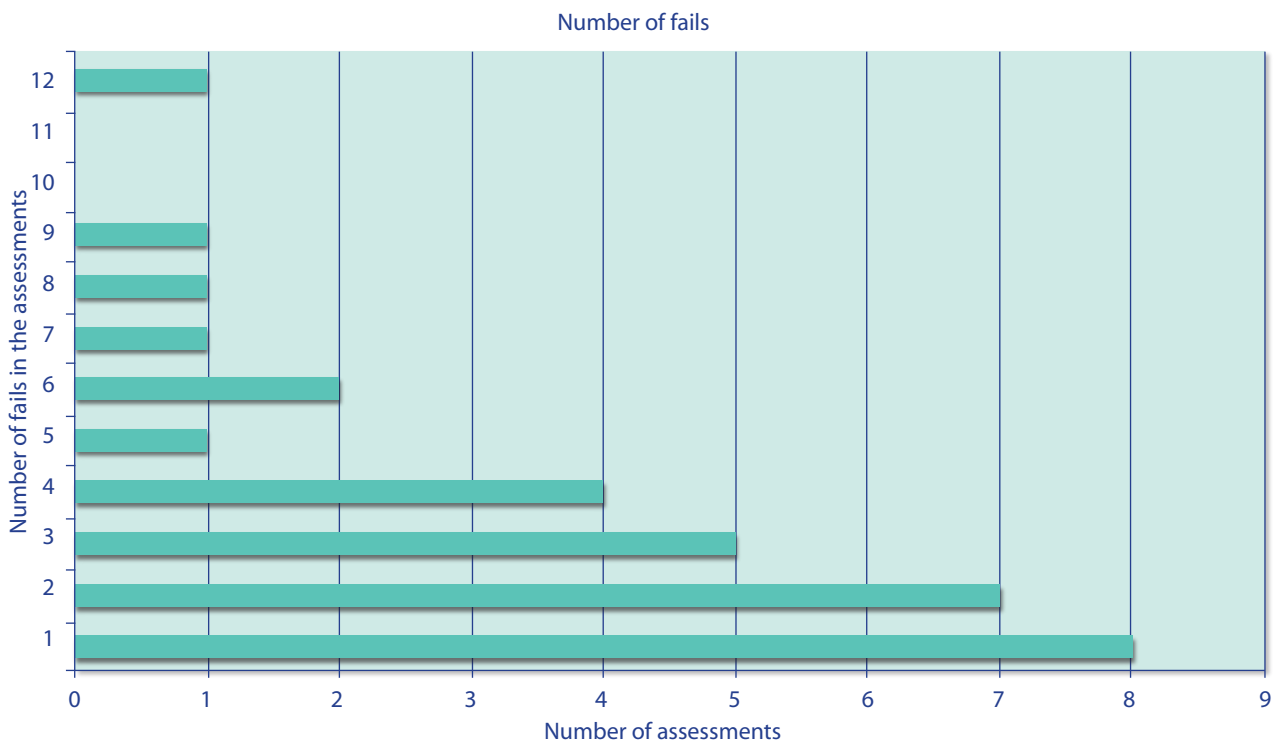
They have put in place corporate responsibility programmes and are using the assessment to check that their good practices are working on the ground. However, others seek assessment to find out how good or bad they are, which is why nearly a fifth of the assessments ‘fail’ the GoodCorporation certification.

Overall pass rate

GoodCorporation awards a certificate for good performance to any organisation that has no 'fail' grade anywhere in its assessment. This is challenging because the Standard covers so many areas of business practice. The table below shows the overall pass rate for organisations that have been assessed by GoodCorporation.

A total of 18% of assessments received at least one fail grade. This reflects, we believe, the rigour of GoodCorporation's assessment and the challenge presented to organisations as they try to embed good practice across all their organisation's activities. For organisations being assessed for the first time the 'fail rate' was 23%.

The chart below shows that, for those 31 assessments which had fail grades, about half had one or two practices receiving such a grade. This suggests that in most cases the organisation, with some focused effort, is able to reach the GoodCorporation Standard. There were, however, seven assessments where the organisation received five or more fail grades and in these cases it was clear to the assessors that there was a problem with the management culture of the organisation.



Overall, large listed businesses were much more likely to have at least one fail grade in their assessment than smaller businesses and not for profit organisations. It was also noticeable that the groups with the highest fail rates (more than five fail grades) were large listed businesses or a division of a large listed business.

Which practices are the hardest to manage?

The analysis of GoodCorporation’s assessment shows that there is a wide range of practices that are difficult for organisations. The table below shows the ten business practices (ranked out of 62) which received the lowest scores overall in GoodCorporation’s assessments.

Ten weakest practices

GoodCorporation Reference	Weakest practices
CUS13	Anti-bribery controls in customer relations
COM8	Assessing and understanding environmental impacts
EMP3	Effective grievance procedure
COM4	Employee help in the community
EMP15	Employee performance review
EMP9	Health and safety training
EMP8	Health and safety policy
SUP8	Supplier anti-bribery policy
COM9	Prioritise and reduce environmental impacts
SUP10	Promote responsible behaviour by suppliers

What is interesting to note is that the weakest practices are not concentrated in one stakeholder group but fall across all groups. In the list of ten above there are four employee practices, two environmental practices, one community practice, two supplier practices and one customer practice.

Employee involvement in the community and volunteering from work are areas which are fairly new in business life, but what our analysis suggests is that many companies have failed to develop these programmes into a meaningful and sustainable part of their activities. Where programmes do exist, our assessors have sometimes found them to be more public relations than substance and when we have interviewed the organisations that have ‘benefited’ from these activities the response has often not been as positive as a neutral observer might expect. On the other hand, as we show below under the commended practices, when done well, these types of projects can be very beneficial.

The promotion of responsible behaviour by suppliers is an area which is also surprisingly weak in our assessments. We have found that outside the retail

industry supply chain screening and promotion of good behaviour is very limited. We believe that there are simple things that companies can do to promote responsible behaviour by suppliers, but that effort has been limited in this area, perhaps because the business case has not been clear cut for our assessed organisations.

Two of the points in the list of weakest practice relate to environmental protection. We have found that some organisations have made limited attempts to evaluate their overall environmental impact, let alone taken convincing steps to reduce it. This is all the more surprising given that many of the businesses where we have found problems are larger organisations that are measuring a number of environmental impacts (such as water and power use). We have found that this data collection often does not link to concrete programmes to reduce environmental impacts.

Two of the points in the list touch on the management of anti-bribery strategies. One relates to suppliers and another to customer relations. We have found in our assessments that companies often do not have very effective practices to deal with these issues. Much of our useful feedback comes from employees and contractors in this area. Confidentially, they report to us on whether gifts policies are clear, whether conflicts of interest are managed and whether there is a culture of turning a blind eye to lax controls.

We find that behind well-written policy documents there are sometimes serious gaps in performance in these areas. Interestingly we have also found that our assessments sometimes provoke active whistle-blowing, with sensitive cases of corrupt behaviour being reported to us. This contrasts with the difficulty that organisations face when trying to get passive whistle blowing systems to work. We find that these systems are often not trusted by employees who do not believe that their report will be genuinely anonymous or confidential.

Developing fair and responsible performance appraisal systems is probably a challenge for most organisations. However, we have found in our assessments that simple changes to appraisal systems can often lead to a significant improvement in the perception of their quality and fairness. Often consultation with employees about the appraisal system can reveal strong concerns about unfairness. The link between performance appraisals and future pay setting is often difficult to manage well. It seems clear that at least one part of the appraisal should be completely divorced from any

discussion about pay if the appraisal is to be useful for the employer and employee.

Given the considerable focus that health and safety has received in the business community, it is perhaps surprising to find that health and safety policy deployment and health and safety training both appear in our list of ten weakest practices. Our approach to assessing health and safety relies on our confidential interviews with employees and contractors in particular by which we are often able to find out how practices work on the ground. In some cases we hear evidence of well-audited safety systems being ignored in daily work practice. We also find that health and safety training (where it exists) is rote and mundane and fails to engage employees.

The final practice in the list of weakest areas is employee grievance procedures. While we often encounter good written procedures, we find in our assessments that employees are sometimes left feeling that these channels are not for them to use and trouble will result from any 'formal' approach to their managers. Our assessors look to informal systems to deal with most forms of minor problems and grievances at work, but we also look to see what happens when something more important goes wrong. Often employees feel that they cannot trust the process for raising a grievance and become cynical as a result.

These impacts do differ significantly from one company to the next and between our different size and types of organisations. As the table below shows, the 'bottom ten' practices differ depending on the size and type of organisation being assessed.

Listed company ten weakest practices

GoodCorporation Reference	Weakest practices
EMP14	Appropriate training
COM8	Assessing and understanding environmental impacts
EMP10	Clear pay setting
EMP3	Effective grievance procedure
COM4	Employee help in the community
EMP15	Performance review
COM9	Prioritise and reduce environmental impacts
SUP10	Promote responsible behaviour by suppliers
SUP9	Supplier anti-bribery controls
SUP8	Supplier anti-bribery policy

For listed companies, employee issues are more challenging, with grievance procedures, performance reviews, pay setting and training all featuring in the bottom ten list. Despite having more resource and usually more expertise, we find that listed companies struggle to manage their environmental impacts on the ground.

Private company ten weakest practices

GoodCorporation Reference	Weakest practices
CUS13	Anti-bribery controls in customer relations
COM8	Assessing and understanding environmental impacts
COM4	Employee help in the community
EMP8	Health and safety policy
EMP9	Health and safety training
SUP2	Personal data protection
COM9	Prioritise and reduce environmental impacts
SUP10	Promote responsible behaviour by suppliers
SHA5	Risk management
SUP8	Supplier anti-bribery policy

For smaller for profit companies, the list is different. Here we find the first shareholder issue to emerge on our list of weakest practices. We look at both financial and non-financial risk management and, perhaps not surprisingly, find it weaker than in the listed company environment. We find health and safety significantly worse than in the listed companies.

Not for profit organisations ten weakest practices

GoodCorporation Reference	Weakest practices
COM8	Assessing and understanding environmental impacts
SUP1	Clear supplier contracts
COM10	Compliance with environmental law
CUS4	Customer complaints management
CUS2	Customer data protection
COM5	Fair competition policy
EMP8	Health and safety policy
COM9	Prioritise and reduce environmental impacts
SUP10	Promote responsible behaviour by suppliers
SUP8	Supplier anti-bribery policy
SHA5	Risk management

In not for profit organisations we find problems in a range of areas. The most important often relate to where not for profit organisations have not dealt with issues such as health and safety, environmental protection and data protection which, with limited resource, they might feel are not core to their mission. Interestingly fair competition crops up in this list. Here we find that not for profit organisations often fail to have in place policies to compete fairly with each other and in certain cases with the private sector.

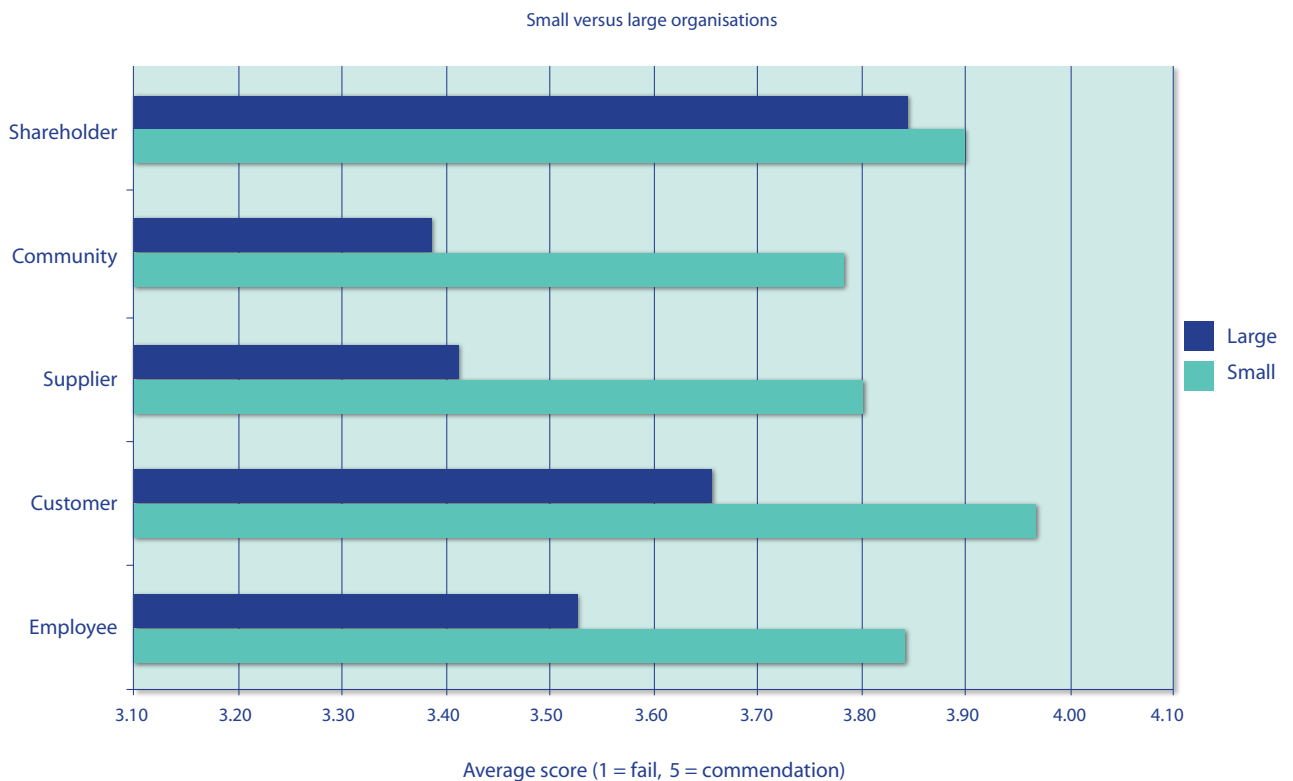
Small versus large

In our analysis we have separated out the performance of our small organisations (fewer than 50 employees) from our larger organisations. The results suggest that our small companies are able to outperform our large organisations in terms of corporate responsibility across all stakeholder groups.

The chart below shows the average performance of our large and small organisations. It shows that small organisations perform better than large ones across our assessment. In the shareholder area performance is comparable. However in the areas of community/environmental performance and supplier management, small companies significantly outscore their larger rivals. The difference is also marked in terms of customer performance and employee performance. The main reason for this difference we believe is that the small companies in our sample are generally committed to responsible business behaviour and are small enough to be able to respond quickly and well to stakeholder needs.

They are also of a size to give personalised attention to employee or customer problems for example. Our assessors find that this type of tailored and personalised attention leads to the highest levels of satisfaction of the stakeholder, even when policies and systems are more informal.

The analysis suggests that large companies can learn from this small company model. If large companies want to improve corporate responsibility performance they need to divide stakeholders into small groups and have local responsibility and control for the relationship. Large companies should also be wary of overly inflexible policy, which we have found to be a source of discontent in our employee and customer interviews in particular.



Commendations

A commendation is awarded to a practice that is judged to be ‘an example of best practice’. In all such cases a strong policy and system would be combined with excellent feedback from the stakeholder group. The table below shows the five practices that have received the most commendations in our assessment work to date.

Practices receiving the most ‘commendation’ grades	
CUS7	Clear product/services specification
COM3	Community project support
MAN1	Corporate responsibility management
EMP6	Employee consultation
COM8	Environmental impact assessment

The most common commendation has been awarded for excellent community projects. In this area we have found dedicated employees who have taken a personal interest in making community projects work both for the community organisations and for the company. In the best cases the company has thought carefully about its own benefits from engaging in the community. In this way some of the programmes we have seen are genuinely sustainable.

In the area of employee consultation (where we also often find problems) we note that small companies in particular are often able to generate significant employee support and excellent feedback by making an effort to consult employees on issues affecting their well-being. While we would not expect to see this consultation process removing the power of the managers of the company to decide to change conditions, a high-quality consultation process can bring significant benefits in terms of morale and motivation.

In a minority of our clients, we find companies and organisations that have a particular mission to protect the environment. This may mean for example that they are selling environmental best practice to their own clients. We have been impressed in some of the cases to see the efforts made to genuinely consider the whole of the environmental footprint and consider how it might be reduced over time. In all the best cases that we have seen, this has been combined with considerable employee involvement.

In our assessments we look at the quality of management and the overall commitment to adopting responsible business practices across the company. We have awarded commendations to a number of our companies in this area because of the focus and quality of management in this area.

In the field of corporate responsibility one of the important issues is honesty in selling. While we have indeed found many companies where products and services are not clearly specified to the customer, we have also found examples where the company has made it part of their ethos to make their products and services easy to understand and made this a point of differentiation against their competitors. It is interesting to note that in our customer interviews, customers always recognise when this is the case and have given our assessors very complimentary feedback. We have therefore been able to award commendation grades for a number of our companies in this area.

Conclusion

This paper has presented the main findings of the assessment work conducted by GoodCorporation in its first five years of operation. It shows the wide range of performance of the assessed organisations and the difficulty that many organisations face in achieving high standards of corporate responsibility across the board.

As GoodCorporation's work grows and more organisations come forward to be assessed we hope that we will be able to use our data to help our clients to measure and compare performance against each other and to make lasting improvements in their corporate responsibility.