



JSE SRI INDEX

Background and Selection Criteria

6 October 2003



BACKGROUND AND PHILOSOPHY

1. Introduction

For some time now, South African companies have been considering how to meet the emerging requirements of investors and civil society for companies to demonstrate more socially responsible behaviour and hence for companies to truly embrace the triple bottom lines of environmental, economic and social sustainability.

A corollary of this realisation is the growth of socially responsible investment (“SRI”). Many large investment institutions have already announced policies to assess the social responsibility of the companies in which they invest.

It is with this background in mind that the JSE has decided to launch an SRI Index (“the SRI Index”) in South Africa, as a means to identify those companies listed on the JSE that integrate the principles of SRI and sustainability into their business activities, and to facilitate investment in such companies.

The SRI Index has been structured to reflect the complex nature of social responsibility in South Africa and hence it has detailed criteria for each of the triple bottom lines. In addition, the SRI Index identifies criteria for corporate governance which is the foundation on which each of the triple bottom lines rests as good corporate governance plays a major role in ensuring that sustainability issues are identified, managed and resolved.

The SRI Index will be constituted from companies that form part of the FTSE/JSE All Share Index and which meet the Criteria. The Criteria are as determined by the SRI Index Advisory Committee and will be reviewed from time to time to reflect the continuous development of both the concepts and practices of SRI and sustainability.

The operation of the SRI Index from a technical perspective will be set out in the SRI Index Ground Rules, which will be released shortly.

All companies, which participate in the review of their current practices, will be advised of how their practices rate against the Criteria. The companies will be given an opportunity to comment on their initial rating before the Index is finally established. This process will be repeated every time practices are reviewed.

2. The three Pillars

The Index is structured along the three Pillars of the triple bottom line, namely environment, society and economy. A company must address each of these Pillars if it is truly to be said to have integrated sustainability into its business practices. Each of the Pillars is outlined below.

2.1 *Pillar 1 - Environmental sustainability*

Africa has a rich and critical resource base, which needs to be wisely used if it is to provide any sustainable support to the development of South Africa and its people. This need has been recognised by the South African government by its signature and ratification of the many international

conventions that relate to sustainability and also its pledge along with other African leaders to the New Partnership for Africa's Development ("NEPAD").

All companies have an impact on environmental resources, only the extent varies. They therefore need to develop strategies to measure and monitor their impacts and implement systems that ensure that these resources are used in a sustainable manner.

2.2 *Pillar 2 – Economic sustainability*

Economic sustainability is often regarded as a synonym for financial performance. While financial performance is certainly an aspect of economic sustainability, it is not necessarily a reflection of long-term growth but often reflects short-term company performance.

Companies need to be able to adapt to macro-economic driving forces through balancing the use of resources against short term profits and should further be focussed on working towards long term growth and sustainability through measuring their economic impacts in their sphere of influence.

2.3 *Pillar 3 – Social sustainability*

A company is a key component of modern society, often representing a more immediate presence to many citizens than the government or civil society. Today, companies can no longer engage with only their shareholders, but are required to develop and maintain positive relationships with a far wider structure of stakeholders, including staff and the community generally. As a direct consequence, a company is increasingly called to account for a culture that reflects non-discrimination, inclusivity and fairness in all aspects of the company's business.

Companies need to demonstrate core business strategies that are linked to internal management systems and key performance indicators aimed at promoting the social upliftment, development and poverty reduction of its staff and the communities in which it operates.

Emphasis also needs to be placed on diversity (including gender and disability diversity), employment equity, black economic empowerment, fair labour practices, employee health and safety, development of human capital and managing the impact of the HIV/AIDS pandemic on the company's activities

3. **Corporate governance**

The principles of fairness, accountability, responsibility and transparency are common to all three Pillars of the triple bottom line. These principles are also the fundamental concepts that lie at the root of corporate governance. It can therefore be said that corporate governance is the foundation in which each Pillar of the triple bottom line is embedded. Consequently it is dealt with separately in the Index.

Successful governance, as advocated by the King Report on Corporate Governance for South Africa (2002) ("**King II**"), and as also for purposes of the Index, requires companies to adopt a more inclusive approach to business,

with greater emphasis on the non-financial aspects of performance. To achieve an integrated / inclusive approach, companies should display good corporate governance standards in all their activities both in principle and in practice. The key challenge is to achieve a balance between performance and compliance while taking account of stakeholder expectations. Proper governance embraces both.

4. Guidelines to conduct

The challenge facing companies is to integrate the principles emerging from each of the three Pillars and from corporate governance into their existing frameworks of governance and business practice. Companies wishing to be included in the Index should develop a vision for the company and ensure that they understand each of the aspects of the three Pillars. The Criteria will measure companies along the following business practices:

- *Policy and strategy*

Companies must establish policies that identify the environmental, economic and social challenges that the company faces, and that commit to the use of reasonable targets for improved performance and for successfully integrating long-term considerations in relation to each Pillar into their business strategies.

- *Management systems and performance*

Companies must establish management systems at central and operational levels to ensure that policies are implemented, and that the achievement of targets set in such policies are monitored and measured.

- *Reporting*

Companies should identify and engage relevant key stakeholders and disclose as much data as possible in relation to the targets set in policies and the company's performance in relation to such targets by regularly, accurately and timeously reporting.

The JSE will be looking to use increasing amounts of performance information to validate the assessment undertaken in accordance with the three Pillars.

5. Inclusion and controversy

The Criteria required for inclusion in the Index as well as the score required in order to qualify for inclusion in the Index will be changed over time to encourage and respond to continuous improvement in corporate performance.

No system of criteria can cater for every eventuality. The Advisory Committee will consider major events or controversies at its meetings and may review the Criteria used or the constitution of the Index at any time if individual events or controversies suggest a necessity for review.

6. Principle documents

A range of widely recognised documents, both local and international, embodies the vision that companies could contribute to developing a path of sustainable growth and development in the triple bottom lines, as well as in corporate governance. These documents have been created both by public and private sector bodies, by governments and by NGOs. A number of these documents are listed here but even these are not intended to be a closed list; they are but a selection of existing relevant works in this area. They are all living documents that are reviewed and developed from time to time. Further documents may also be consulted in time.

- South African legislation relating to constitutional, labour, environmental, social and sustainability issues, including the Constitution
- The King Report on Corporate Governance for South Africa (“King II”) (2002)
- The New Partnership for Africa’s Development (“NEPAD”) (October 2001)
- Universal Declaration of Human Rights (December 10, 1948)
- The OECD Guidelines for Multinational Enterprises (2000)
- The UN Global Compact (January 31, 1999)
- Coalition for Environmentally Responsible Economies (“CERES”) (1989)
- Amnesty International’s Human Rights Principles for Companies
- The Caux Round Table Principles for Business (1994)
- The Global Sullivan Principles (1977)
- Ethical Trading Initiative – The Base Code (1998)
- Social Accountability 8000 (“SA 8000”) (2001)
- Global Reporting Initiative (“GRI”) Sustainability Guidelines (September 2002)
- ISO 14000 International Standards on Environmental Management (“ISO14000”) (1996)
- AccountAbility 1000 Series for social and ethical accountability (“AA1000”) (1997)

SELECTION CRITERIA

1. Introduction

Ever since the publication of King II, companies have increasingly focused on what it means to be truly committed to the triple bottom line. These SRI Index Criteria identify the indicators which companies must meet in order to show that they have integrated sustainability practices across the triple bottom line.

Accordingly, within the Index there are three Pillars used to assess sustainability practices, namely -

- environmental sustainability practices;
- economic sustainability practices; and
- social sustainability practices.

The Criteria for inclusion in the Index are structured along these three Pillars.

Corporate governance is an essential foundation of each of these sustainability practices as it determines how sustainability issues are identified, managed and resolved in a company. In the SRI Index, we have thus reflected corporate governance separately as the foundation on which all of these practices rest.

2. Scoring

Performance in relation to each practice is measured across a range of indicators, which are scored based on the extent to which the company adopts / implements the indicated practice as follows:

Score	Level of adoption / implementation
0	None <i>There is no policy / system in place and only sporadic or ad hoc activity takes place, if any</i>
1	Partial or efforts <i>There is a policy / system in place, but does not meet the level set by the Criteria; or</i> <i>Evidence exists that regular / systematic efforts are being made to implement a policy / system</i>
2	Full / Complete <i>There is a policy / system in place which fully meets the level set by the Criteria</i>
3	Exceeding <i>There is a policy / system in place which exceeds the level set by the Criteria, or which is certified by or registered in terms of an accepted international or other standard e.g. ISO, AA, EMAS etc.</i>

3. Qualifying scores

To qualify for inclusion in the Index, a company must achieve total scores as set out below:

3.1 In relation to each of the three Pillars and corporate governance, a company must achieve the following scores:

- at least **12** (twelve) in relation to *corporate governance* practices;
- at least **22** (twenty-two) in relation to *social* sustainability practices;
- at least **18** (eighteen) in relation to *economic* sustainability practices; and
- in relation to *environmental* sustainability practices:
 - Minimum requirements are set for high, medium or low impact relating to the extent of application of the policy, management and reporting requirements through the company's activities (please refer to **Table 1** in the environmental section). To be eligible for inclusion, a company must at least have efforts to comply with the requirements relevant to its impact classification that would equate to the levels required to achieve a score of **1** (one) in relation to each of policy, management and reporting. In addition, a company must achieve total scores of -
 - at least **20** (twenty) for a high impact company;
 - at least **14** (fourteen) for a medium impact company; and
 - at least **8** (eight) for a low impact company.

3.2 In addition, a company must achieve an overall score of at least **70** (seventy) in total for the three Pillars and the corporate governance practices.

3.3 Within each pillar, there are certain elements that are regarded as core or not negotiable. These core indicators are indicated in **bold** in each area that is measured in the three Pillars and corporate governance, namely policy, management & performance, and reporting & consultation. To be eligible for inclusion, a company must, as part of its score for that area, achieve a score of at least **1** (one) in relation to at least 50% of the core indicators in each area that is measured.

4. Data range

For the first round of the SRI Index, data from 1 January 2002 to 31 December 2002 will be utilised, unless otherwise indicated.

CORPORATE GOVERNANCE

A company should uphold and support good Corporate Governance practices as the foundation for its business policies and practices as it works to continually improve its environmental, economic and social sustainability practices and performance.

A company must -

- demonstrate that policies and strategies are in place, appropriate to the company's size and business, which will lead to the achievement and maintenance of King II requirements;
- demonstrate that processes and structures exist at operating level to ensure that policies are implemented and risks managed effectively;
- work to improve its corporate governance performance in line with the objectives and targets set by its policies; and
- effectively and clearly communicate its understanding, policy, systems and performance, and incorporate stakeholder concerns and priorities.

Indicators:

POLICY	Designated executive is responsible for risks and opportunities presented by each of the triple bottom line practices
	Policy commits to achievement and maintenance of King II requirements
	Policy commits to use of targets for key business areas in a manner appropriate to the size and nature of the company's business
	Policy commits to identification of key performance indicators and business challenges
	Policy commits to stakeholder involvement on relevant issues
	Policy commits to relevant public reporting on triple bottom line performance
MANAGEMENT AND PERFORMANCE	Processes and structures in place for internal auditing of business operations
	Internal reporting processes and structures and management review in place
	Performance in line with 60% or more of the elements of King II in relation to the Board, sub-committees, separation of functions, etc. or clear plans to phase these in over two years

MANAGEMENT AND PERFORMANCE	Identification and management of legislative requirements, risks and opportunities in relation to the company's corporate governance
	Processes and structures to review and implement audit results / findings
	Targets and key performance indicators for key business areas determined and performance against targets measured
REPORTING AND CONSULTATION	Regular, clear and comprehensive disclosure made whenever disclosures made
	Reporting by the company is clear, transparent, complete and simple
	Quantitative, comparable and non-selective data on issues relating to corporate governance given publicly where relevant
	Performance against targets and key performance indicators fairly reported on
	Independent verification
	Relevant stakeholder dialogue undertaken

ENVIRONMENT

A company should continually seek to improve its environmental performance by –

- working to reduce and control its negative environmental impacts;
- promoting higher awareness of the environmental impacts of its products / services;
- working to use natural resources in a sustainable manner and to develop products and services that have reduced negative impacts; and
- committing to risk reduction, reporting and auditing.

A company is classified in a high, medium or low impact category according to its JSE industry sector classification (See Annex 1). The higher the environmental impact, the more stringent the criteria it needs to meet for inclusion.

Table 1

	High impact	Medium impact	Low impact
POLICY	Policy must cover the group's entire activities in South Africa.	Policy must at least cover that part of the group/company with the most significant environmental impacts in South Africa.	Must have published or have clear plans to publish a commitment or policy statement.
PERFORMANCE AND MANAGEMENT	Environmental management system or programme must at least cover those parts of the group / company with the most significant environmental impacts in South Africa.	Environmental management system or programme must at least be present in the company and cover no less than one third of company activities in South Africa and at least those aspects of the company's activities with the most significant environmental impact.	Should demonstrate a commitment to develop and implement environmental management system or programme over the next three years.
REPORTING AND CONSULTATION	Reports should cover the group's entire activities in South Africa.	Company should be reporting on its targets, plans and programmes/initiatives.	Should demonstrate a commitment to report on environmental performance over the next three years.

Indicators:

POLICY	Policy identifies direct and indirect current and future impacts the company has on the environment
	Designated executive responsible for risks and opportunities presented by company's environmental impact
	Policy commits to use of reasonable targets or initiatives or environmental programmes, appropriate to the company's size and business
	Policy commits to monitoring and performance review
	Policy commits to continuous improvement in environmental impact
	Policy commits to stakeholder involvement on environmental issues when relevant
	Policy commits to relevant public reporting of key environmental issues
	Policy explores product / operation lifecycle impacts on the environment
	Policy commits to exploring opportunities to reduce negative environmental impact
MANAGEMENT AND PERFORMANCE	Development of awareness of significant environmental impacts
	Documented targets, initiatives, programmes or management systems to address and monitor most significant impacts across all operations
	Processes and structures in place for internal auditing of environmental practices where relevant
	Internal reporting processes and structures and management review in place to monitor performance
	Processes and structures in place to review and implement audit results / findings
	Evidence of continual improvement (relevant to targets) and correction of non-compliance incidents
	Achievement of targets, or measures to move towards this

REPORTING AND CONSULTATION	Quantitative, comparable and non-selective data on environmental issues given publicly where relevant
	Regular, clear and comprehensive disclosure made whenever disclosure made
	Performance against targets fairly reported on
	Independent verification
	Stakeholder dialogue undertaken whenever relevant
	Disclosure of major non-compliance, prosecution, fines, accidents

ECONOMY

A company should work towards long term growth and sustainability by -

- identifying and making use of economic policies which appropriately balance the use of resources against short term profits;
- adapting to changing demands, trends and macro-economic driving forces;
- working towards product protection and long-term product development / replacement;
- identifying, monitoring and measuring the economic impact of the company within the company's sphere of influence or where the company operates; and
- implementing sound economic governance, accounting policies and systems.

Indicators:

POLICY	Policy commits to use of reasonable targets, key performance indicators / scorecards, appropriate to the company's size and business
	Evidence of policies relating to asset protection (including intellectual capital and IT), research and product development, etc. appropriate to the company's size and business
	Policy identifies the economic impact the company's activities may have on entities within the company's sphere of influence or where it operates
	Policy commits to stakeholder dialogue on relevant issues
	Marketing strategy exists, including measures to grow sales or customer base (as appropriate)
	Policy commits to public reporting of performance indicators and performance against the indicators
	Policy exists to ensure that sound economic governance, accounting policies and systems are implemented

MANAGEMENT AND PERFORMANCE	Short and long term risks, challenges and opportunities are managed
	Internal reporting processes and structures and management review in place
	Regular strategic planning and organisational development exercises undertaken
	Achievement of targets, key performance indicators or scorecard measured
	Decrease in negative impact to economic performance by areas identified as key risks
	Economic impact of company's activities on entities in company's sphere of influence or where it operates, is measured
	Management, integration and valuation of assets (including IT) and intellectual property (including intellectual capital) in place
	Risk and crisis management (including insurance and contingency plans covering product liability, loss of data, natural disasters, reputation, etc.) in place
	Growth in contribution to economic performance by new areas of business identified as means of addressing key risks
	Expenditure allocated to asset protection (including intellectual capital and IT), research and product development
	Net growth of customer base or sales (as appropriate) for past three years (where available) or measuring impact of closing some aspects of business
REPORTING AND CONSULTATION	Quantitative, comparable and non-selective data on economic issues given publicly where relevant
	Performance against targets fairly reported on
	Independent verification
	Stakeholder dialogue undertaken whenever relevant and in compliance with industry standards e.g. GAAP
	Disclosure of major non-compliance, fines, prosecution

SOCIETY

A company should work to develop and continually improve its social and stakeholder relationships by –

- treating all stakeholders with dignity, fairness and respect, recognising their rights to life and security and free association, and their rights to freedom from discrimination and slavery;
- actively promoting the development and empowerment of its employees and where relevant, its stakeholders;
- working to achieve employee retention, development and satisfaction;
- enhancing transparency of its activities; and
- ensuring that core labour standards are met, such as the avoidance of child or slave labour.

Indicators:

POLICY	Designated executive is responsible for identifying and managing social risks and opportunities
	Policy commits to use of reasonable targets, appropriate to the company's size and business
	Policy commits to monitoring and continuous improvement on social issues
	Policies and strategies in place relating to employee occupational health and safety
	Policies and strategies in place to identify and manage the impact of HIV/AIDS on the company's activities
	Policies and strategies in place relating to employee upliftment, including a commitment to develop reasonable targets (employment equity, diversity and skills development)
	Policies and strategies in place relating to external empowerment, including a commitment to develop reasonable targets (equal opportunities, black economic empowerment and affirmative procurement)
	Code of ethics or business principles in place
	Policy commits to stakeholder involvement on social issues when relevant
	Policy commits to relevant public reporting on key stakeholder issues
	Policy identifies social risks and challenges to the company's activities
	Grievance and disciplinary policies in place, including whistle blowing

MANAGEMENT AND PERFORMANCE	Documented initiatives or programmes to address employee occupational health and safety appropriate to the company's size and business
	Documented initiatives or programmes to address the impact of HIV/AIDS on the company's activities
	Documented targets, initiatives or programmes to address employee upliftment (employment equity, diversity and skills development) appropriate to the company's size and business
	Documented targets, initiatives or programmes to address external empowerment (equal opportunities, black economic empowerment, affirmative procurement, social investment initiatives, local procurement programmes and job creation opportunities) appropriate to the company's size and business
	Compliance with labour legislation
	Expenditure allocated to occupational health and safety, including chronic occupational diseases
	Commitment to practices recognising basic human rights
	Evidence of charitable donations, active community relations, bursaries / learnerships and CSR schemes such as arts sponsorship
	Overall good employee relations, including (where relevant) union or other consultative arrangements
	Achievement of targets relating to black economic empowerment, employment equity, procurement and skills development, or move towards this
	Procedures / systems in place for stakeholder engagement and feedback
	Resolution of disciplinary or grievance issues evidencing a clear ability to deal with dishonesty, corruption or unethical behaviour by employees or people with whom the company does business
	Payroll schemes, gifts in kind, staff secondments and other employee or community involvement programmes

REPORTING AND CONSULTATION	Quantitative, comparable and non-selective data given publicly where relevant
	Performance against targets fairly reported on
	Stakeholder dialogue undertaken whenever relevant
	Independent verification
	Labour dispute areas transparently discussed with relevant stakeholders
	Disclosure of major non-compliance, fines, prosecution or incidents

APPENDIX 1

ENVIRONMENTAL SUSTAINABILITY

IMPACT CLASSIFICATION OF COMPANIES

All business activities have an impact of some kind on the environment. The JSE has sought to -

- identify those activities that have potentially high impacts on the environment, or whose environmental impact receives much public scrutiny; and
- distinguish those from medium and low impact activities.

The SRI Index uses the FTSE Global Classification System (as applied in the FTSE/JSE Africa Index Series) as a starting point for identifying business activities with a potentially high impact on the environment. The SRI Index, however, does apply a degree of flexibility to sector definitions. As a general rule a company is rated as high impact if a high impact activity accounts for at least **15%** of its turnover. However, exceptions to this may be made. For instance, if the company is heavily involved in a particular business activity, although this activity contributes less than **15%** of the Group's turnover, this will merit its inclusion in that business activity. To illustrate, this might occur where the turnover of a small waste disposal division of a large, diversified company is bigger than that of a smaller company whose sole activity is waste disposal.

It must be noted that this classification **only** relates to environmental impact and not to overall impacts of companies. The Advisory Committee will keep the classification of business activities under review. The following classification sectors are currently being considered as environmentally high, medium and low impact for the purposes of the SRI Index:

High impact	Medium impact	Low impact
Aerospace & defence	General retailers	Banks
Automobiles & parts	Health	Insurance
Beverages	Household goods & textiles	Investment companies
Chemicals	Information technology & hardware	Investment entities
Construction & building materials	Leisure, entertainment & hotels	Life assurance
Diversified industrials	Media & photography	Speciality & other finance
Electricity	Personal care & household	
Electronic & electrical equipment	Real estate	
Engineering & machinery	Software & computer services	
Food & drug retailers	Support services	
Food producers & processors	Telecommunications services	



High impact (cont.)
Forestry & paper
Gas distribution
Mining
Oil & gas
Pharmaceuticals & biotechnology
Steel & other metals
Tobacco
Transport
Water