



Background and Selection Criteria

September 2004

© JSE 2004

BACKGROUND AND PHILOSOPHY

1. Introduction

The JSE launched the SRI Index in South Africa in May 2004, as a means to identify those companies listed on the JSE that integrate the principles of the triple bottom 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 as 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 (together called “the Criteria” in this document).

The SRI Index is constituted from companies that form part of the FTSE/JSE All Share Index, and which participate in the SRI Index process voluntarily through submitting data in terms of a Questionnaire, and which meet the Criteria. The Criteria are determined by the JSE in consultation with the SRI Index Advisory Committee and are reviewed from time to time to reflect the continuous development of both the concepts and practices of SRI and sustainability. Data submitted in terms of the Questionnaire is assessed against the Criteria by the data provider to the SRI Index, Sustainability Research & Intelligence.

The operation of the SRI Index from a technical perspective is set out in the SRI Index Ground Rules, which are available on www.jse.co.za/sri.

All companies that participate in SRI Index process review will be advised of how they have been assessed against the Criteria. The companies will be given an opportunity to comment on their initial results with the purpose of clarifying issues, before the Index is finalised. This process will be repeated at each annual review of the SRI Index.

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’s rich resource base must be used wisely if it is to play a sustainable role in the development of South Africa and its people. While this may be of particular relevance to extractive and heavy industry, all companies have an impact on environmental resources. They need to develop strategies to measure and monitor their impacts and to implement systems to ensure that resources they consume are used in a sustainable manner and that negative impacts are reduced or minimised and continuous improvement achieved.

2.2 *Pillar 2 – Economic sustainability*

This is often regarded as being merely a factor of financial performance. While financial performance clearly has a role to play in economic sustainability, the key here is to determine whether a company has positioned itself for long-term growth rather than only chasing short-term performance. It must be able to adapt to macro-

economic trends and act in such a way that the long-term viability of the business is assured.

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 only with their shareholders, but are required to develop and maintain positive relationships with a far wider structure of stakeholders, including staff, government and the community generally. Companies need to demonstrate the existence of implemented strategies to promote social upliftment, development and poverty reduction, while taking account of diversity, employment equity, empowerment, fair labour practices and health and safety.

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 the triple bottom line is embedded. Consequently it is dealt with separately in the Index.

To achieve the integrated / inclusive approach to corporate governance advocated by the King Report on Corporate Governance for South Africa (2002) ("**King II**"), 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 activities. Companies wishing to be included in the Index should demonstrate such integration as well as how the principles are, in fact, being implemented in the company. The Criteria will measure companies in the following business areas:

- *Policy and strategy*

Companies must demonstrate policies and strategies for integrating the principles emerging from each of the Pillars into their business activities.

- *Management systems and performance*

Companies must have management systems (any mechanism, including the use of targets and other initiatives to monitor business activities and performance) in relation to triple bottom line aspects and should monitor and measure performance in terms of these.

- *Reporting*

Companies should engage relevant key stakeholders and report regularly, clearly and comprehensively.

The JSE will be looking to use increasing amounts of performance information to validate the assessment of performance against the Criteria. As a result, each round of the Criteria will contain an increasing focus on performance-based measurements. September 2004 marks the start of the second round of the SRI Index. These Criteria have thus already been developed beyond the hurdle set in the first round: for instance, these Criteria incorporate some supply chain issues and place more emphasis on implementation of policies and strategies. Compliance with the JSE Listings Requirements and audit requirements such as GAAP, is accepted, and therefore not separately measured.

5. Inclusion and controversy

The Criteria that companies are required to meet as well as the minimum score they are required to achieve in order to qualify for inclusion in the Index will be changed over time to encourage and respond to both the continuous improvement in corporate performance and the rising standards of sustainability benchmarks.

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.

The documents that have been consulted in the development of the Criteria include, but are not limited to the documents listed in Annex 2.

SELECTION METHODOLOGY

1. Introduction

The Criteria identify the issues that companies must meet in order to show that they have integrated triple bottom line practices across their activities.

Within the Index there are four areas in terms of which companies are assessed, namely -

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

The Criteria for inclusion in the Index are thus structured along these four areas.

2. Scoring

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

Score	Level of adoption / implementation
0	<p>None</p> <p><i>Nothing in place and only sporadic or ad hoc activity takes place, if any</i></p>
1	<p>Partial or efforts</p> <p><i>Objectives / systems are in place, but do not meet the level set by the Criteria; or</i></p> <p><i>Evidence exists that regular / systematic efforts are being made to set objectives / implement a system</i></p>
2	<p>Full / Complete</p> <p><i>Objectives / systems are in place and are reported on, fully meeting the level set by the Criteria</i></p>
3	<p>Exceeding</p> <p><i>Objectives / systems are in place exceeding the level set by the Criteria</i></p>

3. Application of the Criteria

3.1 Multinational companies

A company is classified as a multinational if it has operations outside of South African borders, which are relatively significant or which have a meaningful impact on the company's core business. This applies whether the company is dual listed or not.

There are certain Criteria that apply to South African-specific issues that may not be relevant in other countries in the same manner, if at all. For instance, dual-listed companies follow the law of primary listing and the country of primary listing may not have specific employment equity legislation.

In relation to multinational companies, assessment will thus follow a two-fold approach:

- for all operations, the company should be able to show that it applies a core set of principles which at least meet globally accepted principles in relation to the relevant issues. These principles must be applied in relation to the relevant issues across all operations, regardless of geographic location, although the level of application may vary depending on the geographic location provided that they at least meet globally accepted principles; and
- for operations within South Africa, the company should be able to show that it at least applies South African principles and standards in addition to the core set of principles referred to above.

3.2 Environmental classification

All business activities have an impact of some kind on the environment, however, the extent varies. There is also a difference between the direct and indirect environmental impact a company may have.

- Direct impacts include consumption of natural resources such as water, paper and energy. It further includes the impact a company's core business has on the environment, such as gold mining, oil and gas exploration.
- Indirect impacts relate to impacts that result for example (but without limitation) from
 - projects by others that the company is significantly involved in or providing financing to;
 - activities performed by contractors or entities in the production and supply chain, such as the supply of materials used in the manufacturing of the products distributed or manufactured by the company; or
 - the use of the company's products or services,

and that are likely to have a significant direct environmental impact.

Each company should have a holistic understanding of its total impact on the environment, both direct and indirect, and start to implement policies and strategies to address these.

The JSE has sought to distinguish between various types of activities that have impacts on the environment and set requirements in relation to these activities. As a result, companies are classified as being **high, medium or low** for the purposes only of the environmental Criteria but based on an assessment of a company's direct and indirect environmental impact as a whole.

3.3 Group and holding companies

Where a listed group contains more than one company that is eligible to participate in the SRI Index, each separately listed company will be able to elect whether to participate individually or as part of the group. Where a subsidiary decides not to participate separately but be assessed as part of the larger group or holding company, the subsidiary will not be eligible for separate inclusion in the Index.

Holding companies and investment holding companies that have no operations should include data on subsidiaries that are unlisted or that are listed but which are not participating separately. They should also indicate their own approach to the issues addressed in the Criteria, and whether they exert any influence over the subsidiaries in this regard.

4. Qualifying scores

To qualify for inclusion in the Index, a company must achieve the following:

- 4.1 an overall total score of at least 78 ; and
- 4.2 scores in relation to each pillar and category as set out below:
 - at least 16 in relation to *corporate governance* practices; and
 - at least 25 in relation to *social* sustainability practices; and
 - at least 21 in relation to *economic* sustainability practices; and
 - in relation to *environmental* sustainability practices:
 - a high impact company must achieve at least 22; or
 - a medium impact company must achieve at least 16; or
 - a low impact company must achieve at least 9; and
- 4.3 scores of at least 1 (one) in relation to the core criteria in each pillar and category as follows:
 - at least 5 out of the 9 core criteria in *corporate governance*; and
 - at least 5 out of the 8 core criteria in *environment*; and

- at least 4 out of the 6 core criteria in *economy*; and
- at least 7 out of the 10 core criteria in *society*; and

Core criteria reflect elements that are regarded as core or not negotiable. These are indicated in **bold** in each area that is measured in the Criteria.

5. **Data range**

For the second round of the SRI Index, for which assessment will take place during late 2004, with results being announced during early 2005, data from 1 January 2003 to 30 June 2004 should be submitted, unless otherwise indicated specifically.

SELECTION CRITERIA

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 internationally recognised corporate governance standards and principles, such as King II in South Africa;
- 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, objectively and clearly communicate its understanding, policy, systems and performance, and incorporate stakeholder concerns and priorities.

Criteria:

POLICY	Demonstrated commitment to the achievement and maintenance of internationally recognised corporate governance standards and principles, such as King II in South Africa, in a manner appropriate to the company’s size, business and geographic spread of operations
	Demonstrated policy or strategy of stakeholder involvement on key issues concerning the company
	Demonstrated policy of ethical conduct
	Demonstrated policy or strategy to ensure that direct suppliers are paying attention to the principles of sustainability reflected in these Criteria (e.g. avoidance of child labour, environmental principles, etc.)
	Demonstrated commitment to public reporting on triple bottom line performance

MANAGEMENT AND PERFORMANCE	Processes and structures in place for internal auditing, reporting and review of business operations and management
	Internal reporting processes and structures and review of Board and management performance in place
	Documented targets, initiatives, programmes or management systems that will achieve substantial compliance with internationally recognised corporate governance standards and principles, such as King II in South Africa
	Identification and management of legislative requirements, risks and opportunities
	Processes and structures to review and implement audit results / findings
	Formally constituted Board sub-committee or designated executive responsible for risks and opportunities presented by each of the triple bottom lines
	Measures taken to eliminate unethical and corrupt practices

REPORTING AND CONSULTATION	Regular, clear and comprehensive disclosure of major facts relevant to the company, including of objectives and performance against these, as well as of matters of public interest, such as donations to political parties
	Reporting of performance against objectives and strategies
	Independent assurance by suitably qualified persons
	Stakeholder engagement

ENVIRONMENT

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

- working to reduce and control its direct negative environmental impacts;
- promoting awareness of the environmental impacts of its products / services;
- raising internal awareness of significant direct and indirect impacts;
- working to use natural resources in a sustainable manner
- developing 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 based on an assessment of a company's direct and indirect environmental impact as a whole. The impact classifications as well as the extent to which the Criteria apply to companies are set out in Annex 1.

Criteria:

POLICY	Demonstrated commitment to set objectives and targets for the management of the company's direct environmental impacts
	Demonstrated commitment to reduce or minimise negative impact of products and services
	Demonstrated commitment to the use of management systems and targets which include resource-efficiency targets, initiatives or programmes which are appropriate to the company's size, business and geographic spread of operations
	Demonstrated commitment to identifying, assessing and reducing the environmental impact of: <ul style="list-style-type: none"> • projects that the company is significantly involved in or providing financing to; • activities performed by contractors or entities in the production and supply chain; or • use of the company's products or services, that are likely to have a significant indirect environmental impact
	Demonstrated commitment to monitoring the company's use of natural resources and the development of indicators to assess progress against recognised standards
	Commitment to promote innovative research, training and technology cooperation in the search for environmentally-friendly solutions for the company's environmental impact

MANAGEMENT AND PERFORMANCE	Demonstrated raising of internal awareness of the company's significant direct and indirect impacts
	Documented management systems which include targets, initiatives or programmes appropriate to the company's size, business and geographic spread of operations to address and monitor direct impacts
	Internal reporting processes and structures and management review in place to monitor performance in relation to direct impacts
	Evidence of risk assessment in relation to significant indirect environmental impacts resulting from - <ul style="list-style-type: none"> • projects that the company is significantly involved in or providing financing to; or • activities performed by contractors or entities in the production and supply chain; or • use of the company's products or services
	Evidence of achievement of targets or continual improvement, or measures to move towards this
	Processes and structures in place for internal auditing of environmental practices, including remedial action to review and implement results / findings
	Remedial action in place to review and implement findings of risk assessment in relation to indirect impacts
	Evidence of monitoring and performance review in relation to indirect impacts

REPORTING AND CONSULTATION	Regular, clear and comprehensive disclosure of major environmental sustainability objectives relevant to the company including of performance against environmental targets
	Public disclosure of quantitative, comparable data on major environmental issues relevant to the company
	Independent assurance by suitably qualified persons
	Disclosure of major environmental violations or non-compliance, prosecution, fines, accidents
	Stakeholder engagement

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.

Criteria:

POLICY	Demonstrated commitment to the use of reasonable business targets, key performance indicators or scorecards, appropriate to the company's size, business and geographic spread of operations
	Evidence of an understanding of strategic risks and opportunities relating to the medium and long term
	Evidence of efforts to investigate the economic impact the company's activities may have on entities or persons within the company's sphere of influence or where it operates
	Evidence of objectives set in relation to research and product development appropriate to the company's size, business and geographic spread of operations
	Demonstrated commitment to the protection and valuation of company assets and intellectual property

MANAGEMENT AND PERFORMANCE	Documented targets, initiatives, programmes or management systems to address strategic risks and opportunities in the medium and long term
	Internal reporting processes and structures and management review in place to monitor performance against targets
	Evidence of initiatives, programmes or management systems relating to the valuation and protection of assets (including IT) and intellectual property (including intellectual capital)
	Documented targets, initiatives, programmes or management systems in relation to research and product development
	Evidence of understanding of the economic benefit/s of company activities on entities or persons in the company's sphere of influence or where it operates
	Risk and crisis management (including insurance and contingency plans covering product liability, loss of data, natural disasters, reputation, etc.) in place
	Measurement of contribution to financial performance by new areas of business identified as means of addressing key risks

REPORTING AND CONSULTATION	Public disclosure of quantitative, comparable data on major economic sustainability issues relevant to the company
	Regular, clear and comprehensive disclosure of major economic sustainability issues relevant to the company, including of performance against economic targets
	Stakeholder engagement
	Disclosure of major non-compliance, fines, prosecution relevant to the economic issues referred to in these Criteria

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;
- upholding principles of ethical conduct; and
- ensuring that core labour standards are met, such as the avoidance of child or slave labour.

Criteria:

POLICY	Demonstrated commitment to set objectives relating to employee upliftment and skills development
	Demonstrated commitment to set objectives relating to equal opportunities (including gender equality), non-discrimination and empowerment, such as black economic empowerment and affirmative procurement
	Demonstrated core set of company principles to address the issues set out in the social Pillar of these Criteria such as on basic labour standards, human rights, disciplinary policies, corporate social responsibility undertakings and the like
	Demonstrated commitment to stakeholder involvement on social sustainability issues
	Demonstrated objectives relating to employee occupational health and safety, including HIV/AIDS
	Demonstrated commitment to practices recognising the importance of partnerships in the implementation of corporate social responsibility strategies
	Demonstrated commitment to the implementation of corporate social responsibility strategies which are aligned to the company's overall business strategy and which reflect an ongoing commitment from the company

MANAGEMENT AND PERFORMANCE	Documented initiatives or programmes to address employee occupational health and safety, including the impact of HIV/AIDS on the company's activities
	Documented targets, initiatives or programmes to address equal opportunities (including gender equality), non-discrimination and empowerment, including black economic empowerment, employment equity, affirmative procurement and skills development, appropriate to the company's size, business and geographic spread of operations
	Documented targets, initiatives or programmes relating to corporate social investment, capacity building, local procurement programmes and job creation opportunities, appropriate to the company's size, business and geographic spread of operations
	Procedures / systems in place for stakeholder engagement and feedback
	Procedures / systems in place to achieve 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
	Achievement of targets relating to black economic empowerment, employment equity, procurement and skills development, or move towards this
	Evidence of charitable donations, active community relations which include continued involvement of available company skills in upliftment programmes, bursaries/ learnerships and corporate social responsibility schemes such as arts sponsorship, payroll schemes, gifts in kind, staff secondments and other programmes for employee involvement in the community
	Evidence of risk assessment in relation to the social impact of <ul style="list-style-type: none"> • projects that the company is significantly involved in or providing financing to; or • activities performed by contractors or entities in the production and supply chain; or • use of the company's products or services

REPORTING AND CONSULTATION	Public disclosure of quantitative, comparable data on major social sustainability issues relevant to the company
	Stakeholder engagement
	Performance against targets reported on
	Independent assurance by suitably qualified persons
	Disclosure of major non-compliance, fines, prosecution or incidents relating to the social sustainability issues identified in these Criteria

ANNEX 1

ENVIRONMENTAL SUSTAINABILITY**IMPACT CLASSIFICATION OF COMPANIES**

Table 1: Extent of coverage

	High impact	Medium impact	Low impact
POLICY	Policy must cover the group's entire activities.	Policy must at least cover that part of the group/company with the most significant environmental impacts.	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 direct impacts on the environment, and should cover all direct impacts.	Environmental management system or programme must at least be present in the company and cover no less than 50% of company activities and at least those aspects of the company's activities with direct environmental impacts.	Should demonstrate a commitment to develop and implement environmental management system or programme over the next two years.
REPORTING AND CONSULTATION	Reports must cover the group's entire activities, and must be independently verified.	Company must be reporting on its targets, plans and programmes/initiatives at site, country or group level.	Should demonstrate a commitment to report on environmental performance over the next three years.

Table 2: Impact classification

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	
Forestry & paper		
Gas distribution		
Mining		
Oil & gas		
Pharmaceuticals & biotechnology		
Steel & other metals		
Tobacco		
Transport		
Water		

ANNEX 2

- AccountAbility's AA 1000 Framework for social and ethical accountability
- Amnesty International's Human Rights Principles for Companies
- The CERES Principles
- The Equator Principles
- Ethical Trading Initiative – The Base Code
- Global Reporting Initiative ("GRI") Sustainability Guidelines
- The Global Sullivan Principles of Social Responsibility
- ISO 14000 International Standards on Environmental Management
- The NEPAD Objectives
- The OECD Guidelines for Multinational Enterprises and The OECD Principles of Corporate Governance
- The Second King Report on Corporate Governance for South Africa
- Social Accountability's SA 8000 Standard
- South African legislation relating to constitutional, labour, environmental, social and sustainability issues, including the Constitution
- The UN Global Compact
- Universal Declaration of Human Rights