Caux Round Table

CSR Handbook
For
Small and Medium Enterprises
Global trends in implementing CSR
United Nations Global Compact

principles of international law regarding:

- Human rights.
- Labor rights.
- Environment
- Bribery and corruption
Global Reporting Initiative ("GRI")

- Data points of corporate performance with respect to people, planet, profits…

  (No logical link between the Global Compact and the GRI data points).
Caux Round Table Principles for Business.

- Only principles created by business leaders.
- Reflect all the world’s religious traditions.
Other Systems of Measurement

(what you can measure, you can manage)

SA 8000 – factory working conditions
AA 1000 – qualitative factors
ISO 9000 – quality of product
ISO 14000 – environmental footprint
ISO 26000 – new standard for CSR due in 2009
Other Principles

- Global Compact Principles for Responsible Investing (ESG factors) Managers of $4 trillion have signed on.

- Wolfsburg principles for responsible banking and money laundering.

- World Bank standards for lenders regarding environmental impact of projects (Equator Principles).

- Standards for extractive industries (oil, Mining)
What is CSR?

• Business ethics?
• Social responsibility?
• Corporate citizenship?
• Good corporate governance?
• Corporate philanthropy?
• Stakeholder priority?
What about CSR and Profits?

• Can Business do Good and still do Well?
• Can there be a moral capitalism?
The CSR Equation:

Reputational capital + human capital + social capital + finance capital + physical capital turned into products and services that please customers = sustainable profits

Doing good leads to doing well in business
Caux Round Table considers this the Kyosei philosophy of business

It is a form of Moral Capitalism
Reputational Capital comes from Acting ethically
Human Capital comes from inspiring your employees to achieve levels of high performance
Social Capital comes from good company management, wise personal leadership, and stewardship values
Finance Capital comes from trust that your business will deliver as expected and as promised
Physical Capital (land, plant, equipment) comes from Finance Capital
• CSR values enhance capital accounts
• Capital accounts enhance business success
• Business success produces steady profits
Theory of the Moral Firm

(self interest considered upon the whole)

Inputs

- Reputational capital
- Social capital
- Human capital

Conversion processes

- Physical capital
- Finance capital

Output

- Goods/services
- Customers

Return on Capital

($; sustainable profits; low beta; maximum value)

(preserve adequacy of capital inputs)
Theory of the Moral Firm: 2
Your Stakeholders:
- Customers – moral compass for capitalism
- Employees – moral agents, not parts for a machine
- Owners and Investors – fiduciary duties of loyalty and due care
- Suppliers – friends, not foes
- Competitors – compete with quality and innovation, not price
- Communities – enhance social capital to enhance future profitability
The Responsible Business

Ideals, Aspirations, Meaning (core authentic value proposition)

Kyosei
Human Dignity
Moral Capitalism

Sustain
CRT Principles for Business

Inform
CRT Self-Assessment Process

Elaborate and Quantify
Stakeholder Benchmarks

Focus
Management decision-making
(Principled Business Leadership)

Accountable for
Metrics; Data Points;
GRI; TSI Fund;
S&P Corporate Governance Ranking
Greed; Social Darwinism

Maximize $ Irrespective of consequences to others

ROI

Total Compensation

Stock Price

Consumers caveat emptor

Employees layoff 20% a year; lock In 401 (k) stock

Owners/Investors “aggressive” accounting; conceal liabilities

Suppliers squeeze and bully

Competitors collude or destroy

Communities maximize externalities; Seek government favoritism; No transparency

Outcome

Destruction of equity investment

Financial loss for employees, creditors, suppliers

Employees layoff 20% a year; lock In 401 (k) stock

Owners/Investors “aggressive” accounting; conceal liabilities

Suppliers squeeze and bully

Competitors collude or destroy

Communities maximize externalities; Seek government favoritism; No transparency
Moral Capitalism
Aspirations
(Kyosei, Human Dignity, Stewardship)

Core Behaviors

Creating New Markets, New Consumer Paradigms

Values-Driven

Business Case

Social License to Operate

Legal Compliance, Short-termism

Transforming

Integrated

Innovative

Engaged

Basic

Leadership Styles

Visionary

Values Champion

Value Steward

Supportive

Disconnected, Erratic Reactive

23
Moral Capitalism: Linking Self-interest with virtue

100%  
Virtue  
(other regarding)  
Self interest considered upon the whole  
100%  
Self interest  
(self regarding)
The CSR overlap

Virtue

Self Interest
CRT Principles for Business

Seven Principles:

1. Recognize stakeholder constituencies
2. Create wealth for development of the world
3. Act with sincerity, candor and truthfulness
4. Respect the law
5. The World is one economic community
6. Sustain the environment
7. Avoid corruption and illicit dealings
CRT Principles for Business Stakeholder Constituencies

1. Customers
2. Employees
3. Owners/Investors
4. Suppliers
5. Competitors
6. Communities
As globalization takes place, where does value for business come from?

✓ Intangible Assets & Goodwill

The impact on financial performance of intangibles is growing
50 Best Performers of 2005
Business Week

Apple: Market value: $58 billion
Balance sheet assets: 19.8%
Goodwill: 80.2%

United Health Group: Market value: $79 billion
Balance sheet assets: 52%
Goodwill: 48%

Burlington Northern Santa Fe: Market value: $29.2 billion
Balance sheet assets: 103% of market value ($30.3 billion)
Goodwill: None

Starbucks: Market value: $27.8 billion
Balance sheet assets: 12%
Goodwill: 88%
## 50 Best Performers of 2005

**Business Week**

<table>
<thead>
<tr>
<th>Company</th>
<th>Market value</th>
<th>Balance sheet assets</th>
<th>Goodwill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Buy</td>
<td>$26.3 billion</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>$61.7 billion</td>
<td>1.1%</td>
<td>98.9%</td>
</tr>
<tr>
<td>Caterpillar</td>
<td>$49 billion</td>
<td>95.9%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Microsoft</td>
<td>$279 billion</td>
<td>33.7%</td>
<td>66.3%</td>
</tr>
</tbody>
</table>
What are a company’s key intangible value drivers?

- Customer satisfaction
- Brand reputation
- Employee skill, productivity and loyalty
- Access to capital at low cost
- Certainty of earnings
- Leadership and strategy
Each value driver is a source of risk
Risk management is one of the most important issues facing business
Market risk
(price point)

Varies with reputation
Operating risk

Varies with costs
Balance sheet risk

Varies with intangible and tangible liabilities – environmental, workers compensation, litigation and regulation
Financial capital risk

Varies with opportunity cost of capital
Human capital risk

Varies with ability to attract and retain quality employees
- Lowering risk for each value driver enhances the quality of intangible asset and increases business valuation

- Risk management leads to higher valuation

- Risk management is one of the most important issues facing business
Each value driver/risk point is a stakeholder relationship

To manage risks and improve company valuation,

improve stakeholder relationships!

This is a company’s core CSR strategy
CSR & Valuation

Relationship value drivers = CSR relationships

- Customers
- Employees
- Owners/Investors
- Suppliers
- Competition Strategies
- Community Support
CSR relationships = intangible assets

Tangible Values
(Generally Audited Financial Information)

Intangible Values
(Generally Non-audited, Non-financial Information)

Financial Capital
Tangible Assets

- Intellectual property
- Sustainability
- Quality of employees
- Brand loyalty
- Labor environment
- Community support
- Unallocated goodwill
How to measure your CSR relationships

- Use Caux Round Table Risk Assessment questionnaire—“Arcturus”

- Confidential tool designed to help Board of Directors, CEOs and Senior Managers

- Arcturus evaluates a firm’s conduct against the aspirations of the CRT Principles for Business

- Arcturus identifies current and emerging issues in order to launch targeted improvement initiatives
What is Arcturus

- An inventory process asking questions of board members, executives, management team, employees, etc., of a company to assess and diagnose various risks and opportunities.

- The Arcturus executive questionnaire can be completed in about 60 minutes and the Arcturus full questionnaire can be completed in about 30 minutes per stakeholder.
✓ Risks and opportunities are diagnosed from the perspective of the CRT seven general principles and the seven stakeholders groups.

✓ What is diagnosed is the extent to which a company has fulfilled its duties under the seven general CRT Principles and promoted its relationship with each of its seven stakeholder constituencies.

✓ The diagnosis will allow management to consider issues the company is confronted with from the different perspectives of all stakeholders.

✓ Measured outcomes create new goals for corporate improvement.
## ARCTURUS

The Seven Principles and Stakeholders Matrix

<table>
<thead>
<tr>
<th>Principles</th>
<th>A Fundamental Duties</th>
<th>B Customers</th>
<th>C Employees</th>
<th>D Owners/Investors</th>
<th>E Suppliers/Partners</th>
<th>F Competitors</th>
<th>G Communities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Responsibility of Business</td>
<td>1-A</td>
<td>1-B</td>
<td>1-C</td>
<td>1-D</td>
<td>1-E</td>
<td>1-F</td>
<td>1-G</td>
</tr>
<tr>
<td>2. The Economic and Social Impact of Business</td>
<td>2-A</td>
<td>2-B</td>
<td>2-C</td>
<td>2-D</td>
<td>2-E</td>
<td>2-F</td>
<td>2-G</td>
</tr>
<tr>
<td>3. Business Behavior</td>
<td>3-A</td>
<td>3-B</td>
<td>3-C</td>
<td>3-D</td>
<td>3-E</td>
<td>3-F</td>
<td>3-G</td>
</tr>
<tr>
<td>4. Respect for Rules</td>
<td>4-A</td>
<td>4-B</td>
<td>4-C</td>
<td>4-D</td>
<td>4-E</td>
<td>4-F</td>
<td>4-G</td>
</tr>
<tr>
<td>5. Support for Multilateral Trade</td>
<td>5-A</td>
<td>5-B</td>
<td>5-C</td>
<td>5-D</td>
<td>5-E</td>
<td>5-F</td>
<td>5-G</td>
</tr>
<tr>
<td>6. Respect for the Environment</td>
<td>6-A</td>
<td>6-B</td>
<td>6-C</td>
<td>6-D</td>
<td>6-E</td>
<td>6-F</td>
<td>6-G</td>
</tr>
<tr>
<td>7. Avoidance Illicit Operations</td>
<td>7-A</td>
<td>7-B</td>
<td>7-C</td>
<td>7-D</td>
<td>7-E</td>
<td>7-F</td>
<td>7-G</td>
</tr>
</tbody>
</table>
Arcturus: A five step process

- **Step I**  
  Pre Research & Customization

- **Step II**  
  Data Collection

- **Step III**  
  Investigation & Analysis

- **Step IV**  
  Extraction of Issues

- **Step V**  
  Reporting
Step I: Pre Research & Customization

Company research by Arcturus team to understand company history and values:

• Annual report
• Sustainability report
• Pre interviews
Step II: Data Collection

Executives and employees answer 49 questions with scores and comments.

General Principles
1. The Responsibilities of Businesses
2. The Economic and Social Impact of Business
3. Business Behavior
4. Respect for Rule
5. Support for Multilateral Trade
6. Respect for the Environment
7. Avoidance of Illicit Operations

Stakeholder Principles
(A) Fundamental Duties
(B) Customers
(C) Employees
(D) Owners / Investors
(E) Suppliers
(F) Competitor
(G) Communities
Data collection – Completing the Arcturus inventory worksheet

➢ Awareness of issues impacting the company is collected in quantitative form on a 0 to 8 point scale and in qualitative form by written comments on activities, policies and concerns which is called language data.

➢ Each respondent scores the company in each of the 49 areas of investigation.

➢ Each respondent adds qualitative comments on key areas of concern.

➢ The CRT staff and project team facilitate the inquiry process.
ARCTURUS
Sample Question

STAKEHOLDER – EMPLOYEES (Section C)

7-C Avoidance of Illicit Operations - Employees

To what extent does the company have measures in place to prevent illegal and illicit activities by employees?

POINTS TO CONSIDER – Codes of conduct and effective and speedy detection of unacceptable practices such as child labor, employing illegal migrants, discrimination in the workplace, or non-compliance with national or international labor standards. Including offering/accepting bribes, making facilitation payments, condoning fraud, arranging transfer prices for illicit purposes, violating anti-monopoly and fair laws, or violating licensing or copyright restrictions.

Point (s): Please circle

0  1  2  3  4  5  6  7  8

Please write down any concerns, explanations or additional comments on how or how not, the company is performing.

________________________________________________________________________________________________________
________________________________________________________________________________________________________
Step III: Investigation & Analysis

Responses to the 49 questions and the interview content to be examined and analyzed.

Evaluation / Assessment
Step IV: Extraction of Issues

Identifying issues: strengths & weaknesses of the company
Step V: Reporting

The report of Arcturus Diagnosis

The result of Arcturus diagnosis

<table>
<thead>
<tr>
<th>score</th>
<th>A.FD</th>
<th>B.Cu</th>
<th>C.Em</th>
<th>D.In</th>
<th>E.Su</th>
<th>F.Co</th>
<th>G.Co</th>
<th>score</th>
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Note: Each assessment is made on a scale of one to eight.

Comments from executives, employees, etc.

Comments from CRT
Nissan’s Experience With Arcturus

**Identifying Strengths and Challenges Through CSR Self-Evaluation**

Nissan tested “CSR Innovation,” a self-evaluation program, with 12 executives in the fall of 2005. CSR Innovation is a tool developed by the Caux Round Table, founded in 1986 by business leaders from Japan, the United States and Europe. In this program, each executive is given a face-to-face interview and answers 49 questions covering a range of topics. By analyzing the results of the interview, objective views are obtained on the executives’ approach to CSR. In addition to this objective, Nissan’s implementation of CSR Innovation presented an opportunity for the executives to reconsider their own performance in daily management tasks.

Through such self-evaluation, the following strengths and challenges have been identified. These will be used by the CSR Steering Committee to establish CSR activities that Nissan will strongly promote in the future.

**Strengths**
- Embracing of diversity as a management asset
- Measures taken to ensure transparency
- Achievement of industry-leading recycling rates

**Challenges**
- Inadequate contribution to overall social development
- Action to combine business with environmental and social aspects
- Insufficient action in regions other than Japan, North America and Europe
Nissan’s Experience With Arcturus

In the process of establishing a CSR policy and key areas, a self-evaluation program developed by the Caux Round Table, “CSR Innovation,” was introduced to objectively understand how management views the present situation at Nissan. In addition, through workshops with section leaders, issues were identified from the perspective of CSR, and visions for the future were discussed. (See page 6 for details.) Moreover, corporate analysis from external rating agencies was used to identify material issues. The ideas generated and discussed through these processes have been of critical importance in shaping our CSR policy and identifying key areas. The CSR policy and nine key areas were approved by the Executive Committee in March 2006.

* The Caux Round Table was founded by business leaders from different countries in 1986 at Caux, Switzerland, to promote corporate ethics and contribute to viable economic and social development.

### Nissan CSR Policy
- Ethical conduct and strong corporate governance with a high degree of transparency as well as a clear focus on diversity are the foundation for all our activities worldwide.
- We aim for the sustained profitable growth of the company while at the same time contributing proactively to the sustainable development of mobility and society.
- We will listen to, and work with, our stakeholders around the world to create trust, opportunity and long-term sustainable value.

### Key Areas
- Integrity
- Quality
- Safety
- Economic contribution
- Environment
- Value chain
- Brand
- Employees
- Philanthropy
Nissan’s Experience With Arcturus

Nissan CSR policy contributes to create value for our stakeholders in line with our Vision, Mission and Nissan Way.

Note: Our Vision and Mission are described on the foldout under table of contents. For the Nissan Way, see page 10.
The Business CSR Cycle

Status Quo → CRT Assessment → Performance Feedback → To Management → Performance Improvement → Status Quo
CSR Cycle for Enhanced Company Valuation

• Assess (use Arcturus)
• Review Assessment Results
• Pick Action Priorities
• Set Goals (key performance indicators)
• Work Hard
• Get Results
Key Performance Indicators
Focus on Customers

- Value of your BRAND-low, medium or high?
- Intensity of BRAND equity?
- What is your brand?
- % of customers who are very loyal?
- Do you sell on price, quality or value added?
- Do you stand behind your product or service?
- Is your product environmentally safe and results from sustainable technologies?
- Quick and effective resolution of customer worries and complaints?
Key Performance Indicators
Focus on Employers

- Provide value adding employment opportunities
- Fair compensation and benefits
- High employee motivation
- High employee loyalty
- High employee productivity
- No discrimination or use of child, forced or compulsory labor
- Merit hiring and promotion
- Treat employees with consideration and respect-action complaints
- Reduce dangers and risks associated with employment
- Know ethical decision-making styles of managers and employees
Key Performance Indicators
Focus on Investors and Creditors

• Transparent and accountable management
• Accurate financial reporting
• Pay interest and principal when due
• Generate fair returns and higher value for owners
• Disclosure of material risks
Key Performance Indicators
Focus on Suppliers/Sub-Contractors/Partners

- Use responsible and environmentally sustainable product and service design and technologies
- Add value to suppliers/subcontractors/partners
- Fairness and integrity in contracting with suppliers/subcontracting/partners
- Encourage suppliers/sub-contractors/partners repairness and incentiveness
- Reject inappropriate gifts or kickbacks
- Prevent illicit activities on part of suppliers/sub-contractors/partners
Key Performance Indicators
Focus on Competition

- Compete on quality or innovation
- Compete on positive brand equity
- Fair and open marketing and pricing
- No abuse of market power
- No use of government/politics to gain market power
- No acquisition of commercial information by unethical means
- No violation of anti-monopoly and similar laws
- No illicit payments to obtain a competitive advantage
Key Performance Indicators
Focus on Community

- Contribute to education, social and cultural welfare
- Contribute to respect of human rights
- Support constitutional and democratic institutions
- Raise economic well-being
- Charitable contributions
- Employee participation in community projects
- Promotes and sustains health and integrity of the environment
- Recognize governments legitimate obligation to serve society at large
- Avoids corruption and illicit activities