

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

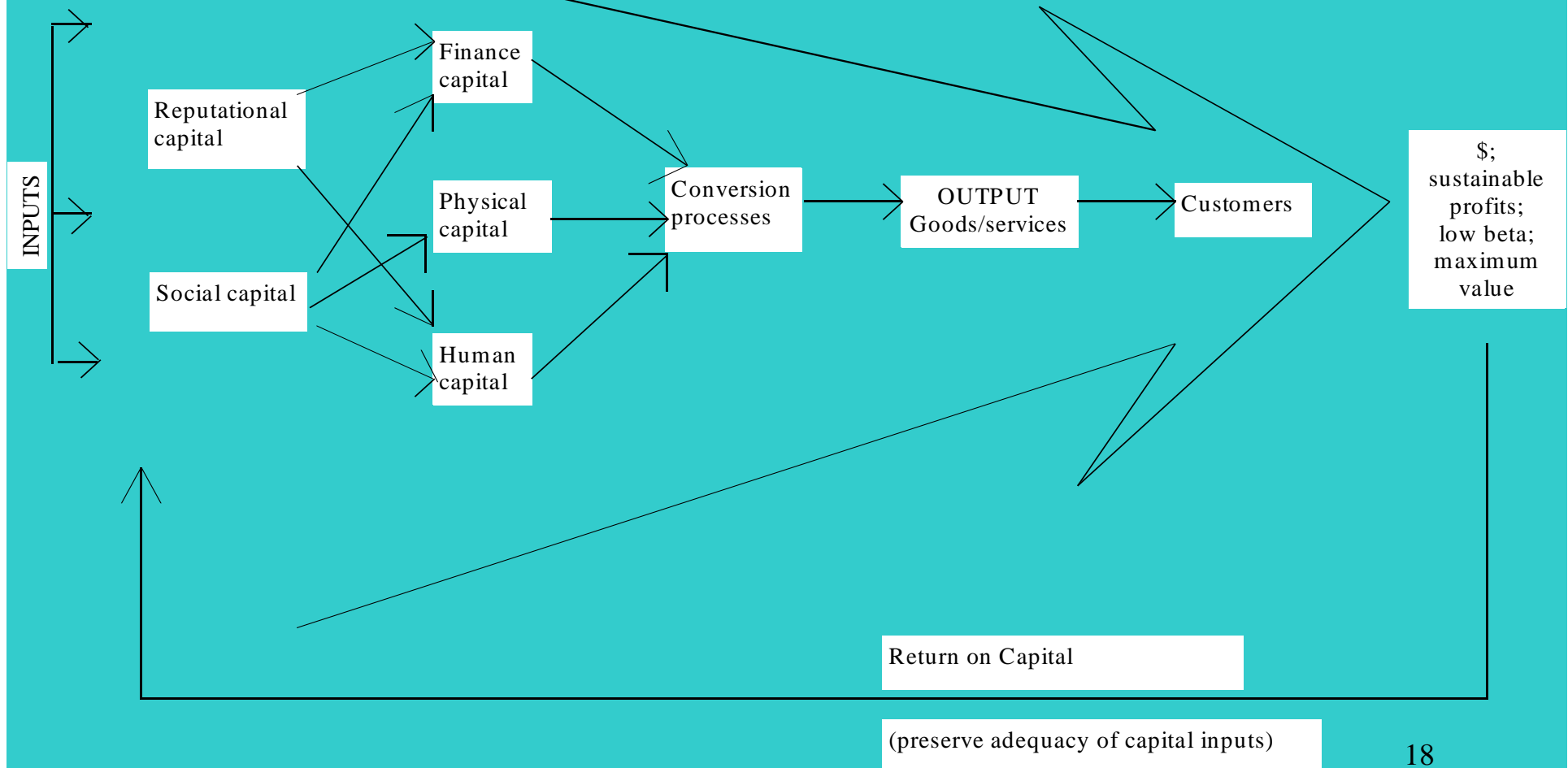
Finance Capital comes
from trust that your business will
deliver as expected and as promised

Physical Capital (land, plant,
equipment) comes from Finance
Capital

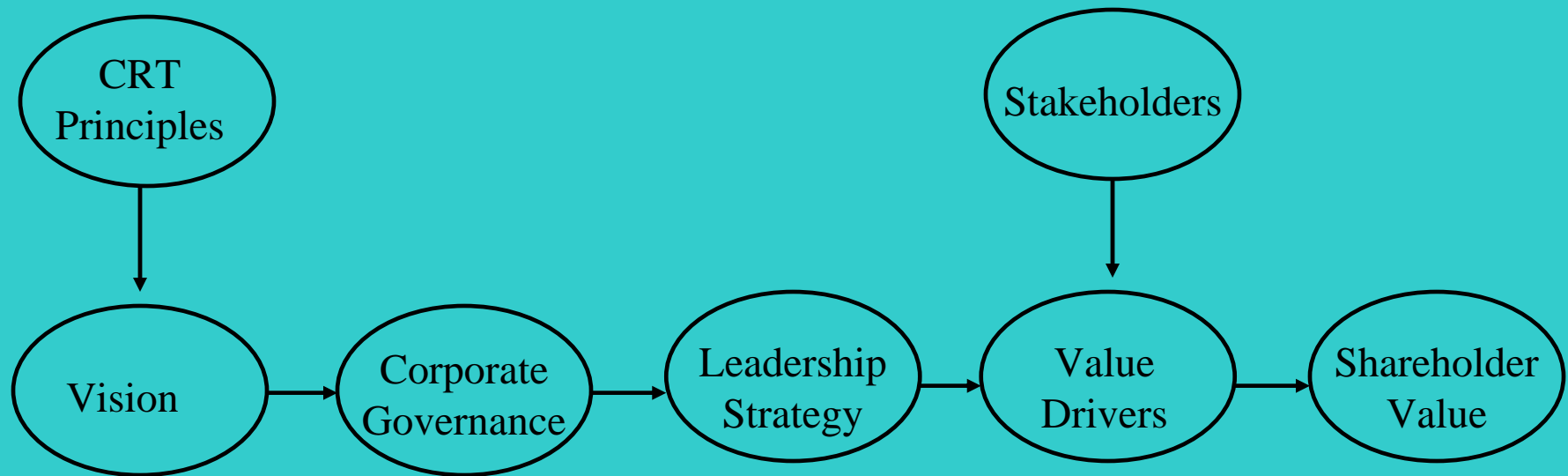
- CSR values enhance capital accounts
- Capital accounts enhance business success
- Business success produces steady profits

Theory of the Moral Firm

(self interest considered upon the whole)



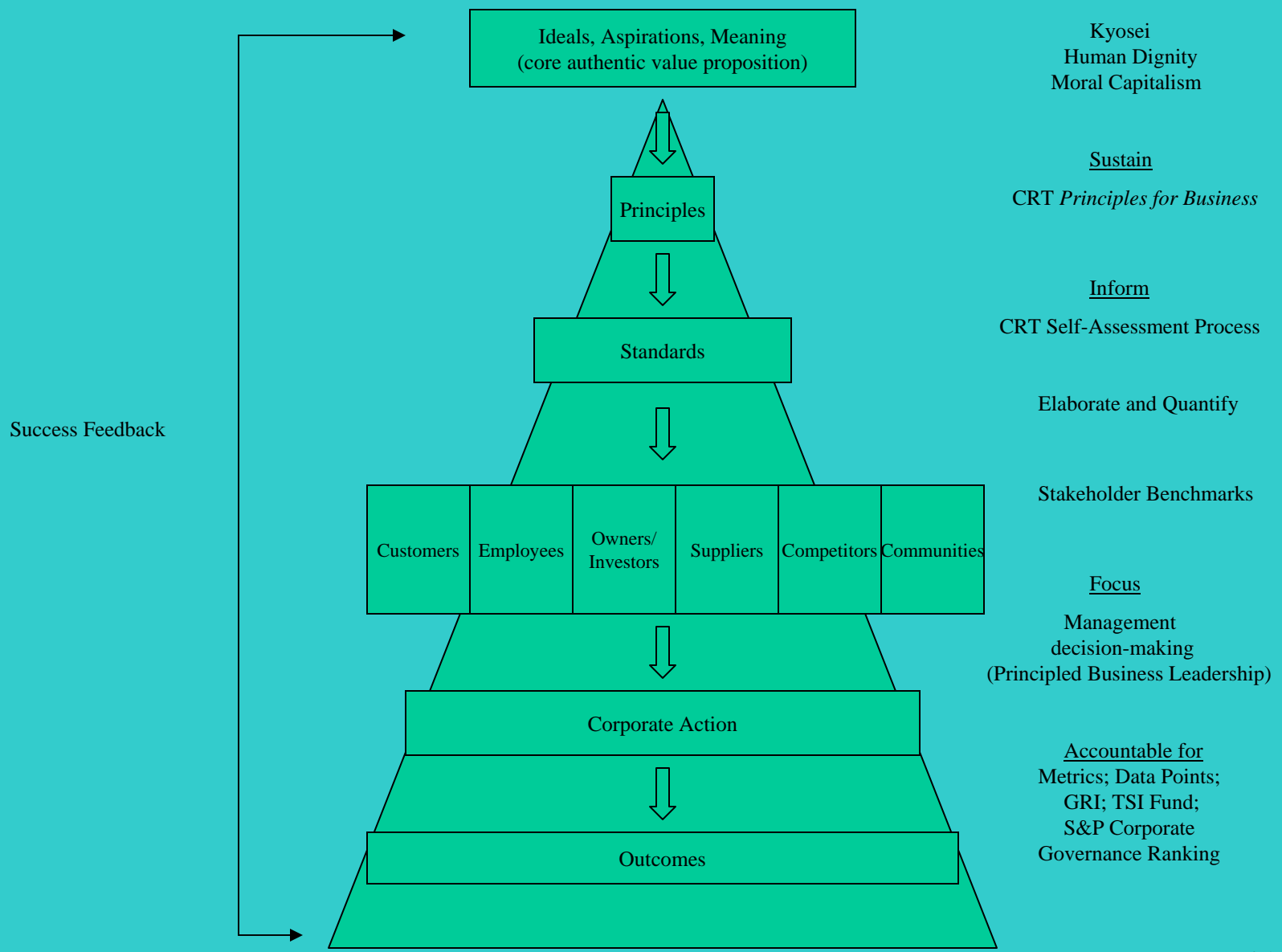
Theory of the Moral Firm: 2



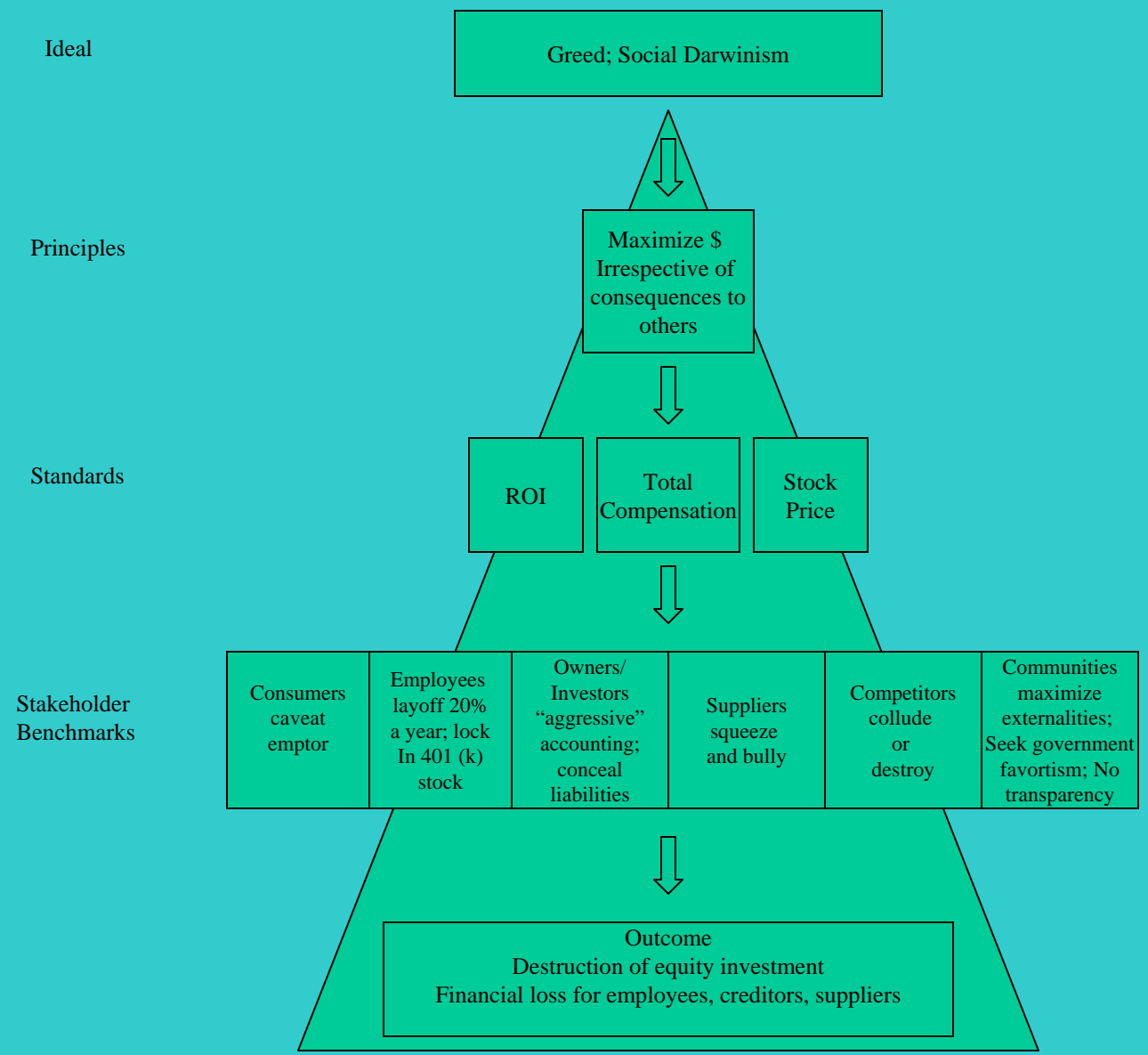
Your Stakeholders:

- 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



The Irresponsible Business- ENRON



Moral Capitalism

Aspirations
(Kyosei, Human Dignity, Stewardship)

Core Behaviors

Leadership Styles

Creating New Markets, New
Consumer Paradigms

Transforming

Visionary

Values -Driven

Integrated

Values
Champion

Business Case

Innovative

Value Steward

Social License to
Operate

Engaged

Supportive

Legal Compliance,
Short-termism

Basic

Disconnected, Erratic
Reactive

Moral Capitalism: Linking Self-interest with virtue

100%

100%

Virtue

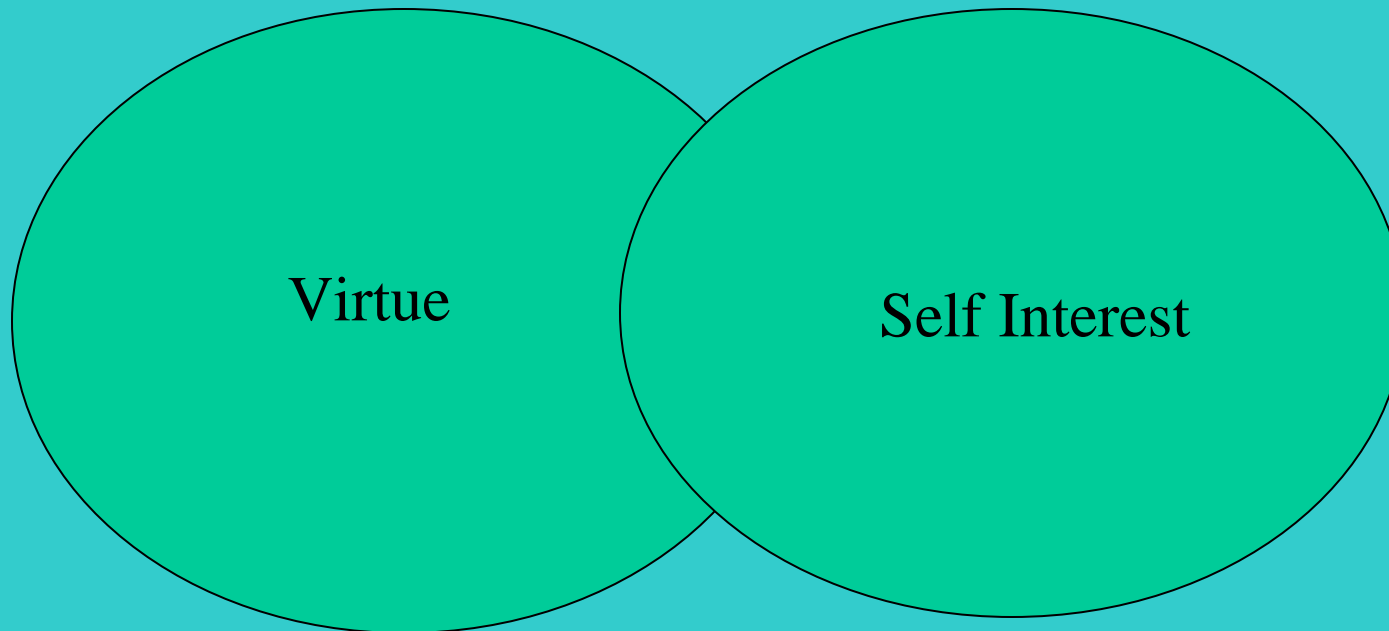
Self interest

(other regarding)

(self regarding)

← Self interest considered upon the whole →

The CSR overlap



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

Best Buy:

Market value: \$26.3 billion

Balance sheet assets: 39%

Goodwill: 61%

Goldman Sachs:

Market value: \$61.7 billion

Balance sheet assets: 1.1%

Goodwill: 98.9%

Caterpillar:

Market value: \$49 billion

Balance sheet assets: 95.9%

Goodwill: 4.1%

Microsoft:

Market value: \$279 billion

Balance sheet assets: 33.7%

Goodwill: 66.3%

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)

Financial
Capital
Tangible
Assets

Intangible Values

(Generally Non-audited,
Non-financial Information)

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

Stakeholders Principles	A Fundamental Duties	B Customers	C Employees	D Owners/ Investors	E Suppliers/ Partners	F Competitors	G Communities
1. The Responsibility of Business	1-A	1-B	1-C	1-D	1-E	1-F	1-G
2. The Economic and Social Impact of Business	2-A	2-B	2-C	2-D	2-E	2-F	2-G
3. Business Behavior	3-A	3-B	3-C	3-D	3-E	3-F	3-G
4. Respect for Rules	4-A	4-B	4-C	4-D	4-E	4-F	4-G
5. Support for Multilateral Trade	5-A	5-B	5-C	5-D	5-E	5-F	5-G
6. Respect for the Environment	6-A	6-B	6-C	6-D	6-E	6-F	6-G
7. Avoidance Illicit Operations	7-A	7-B	7-C	7-D	7-E	7-F	7-G

Arcturus: A five step process



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

- 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

	A.FD	B.Cu	C.Em	D.In	E.Su	F.Co	G.Co	score
1.RB								
2.ES								
3.BB								
4.RR								
5.SM								
6.RE								
7.AI								
score								

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

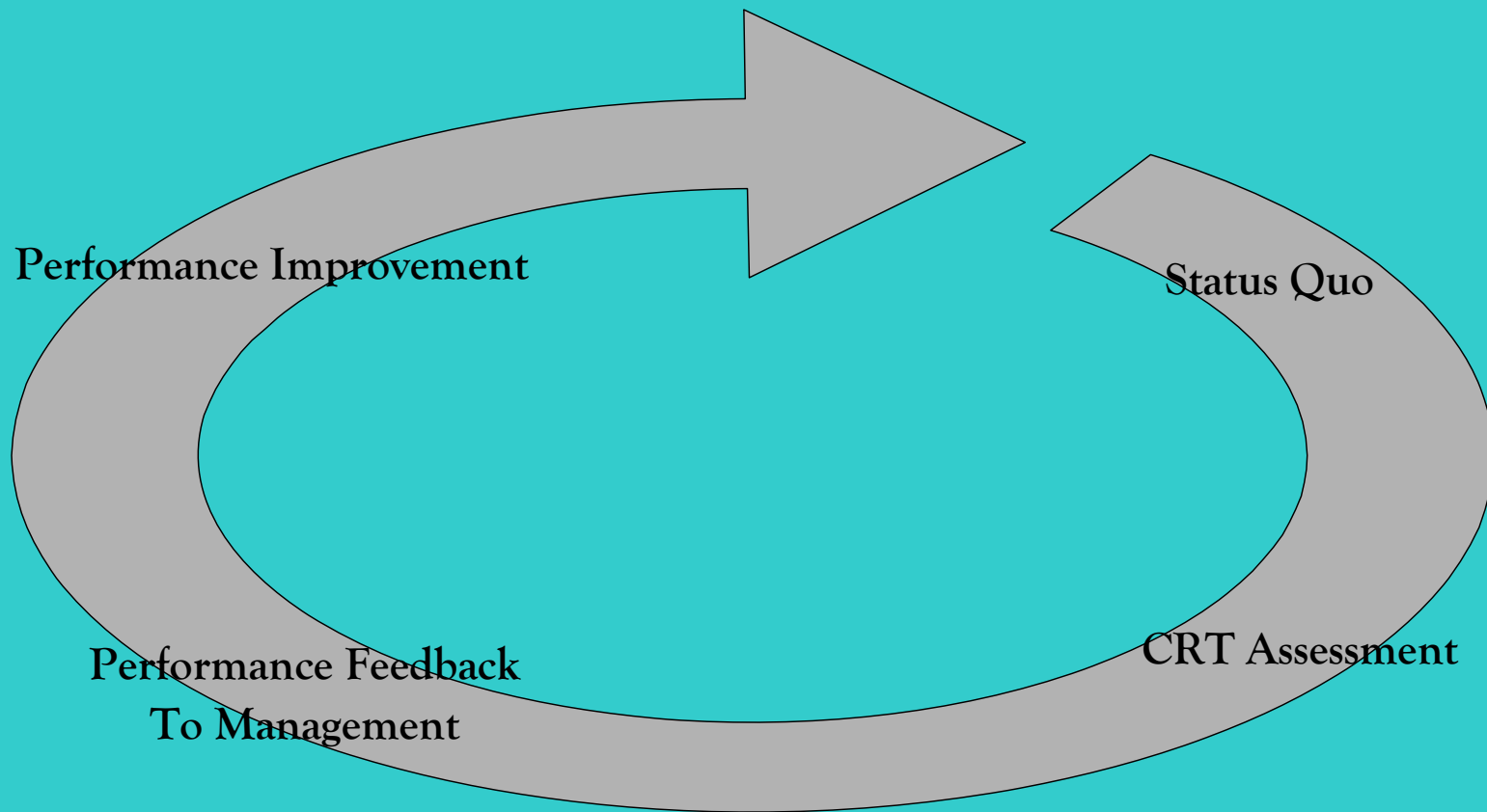
Nissan's Experience With Arcturus

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



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

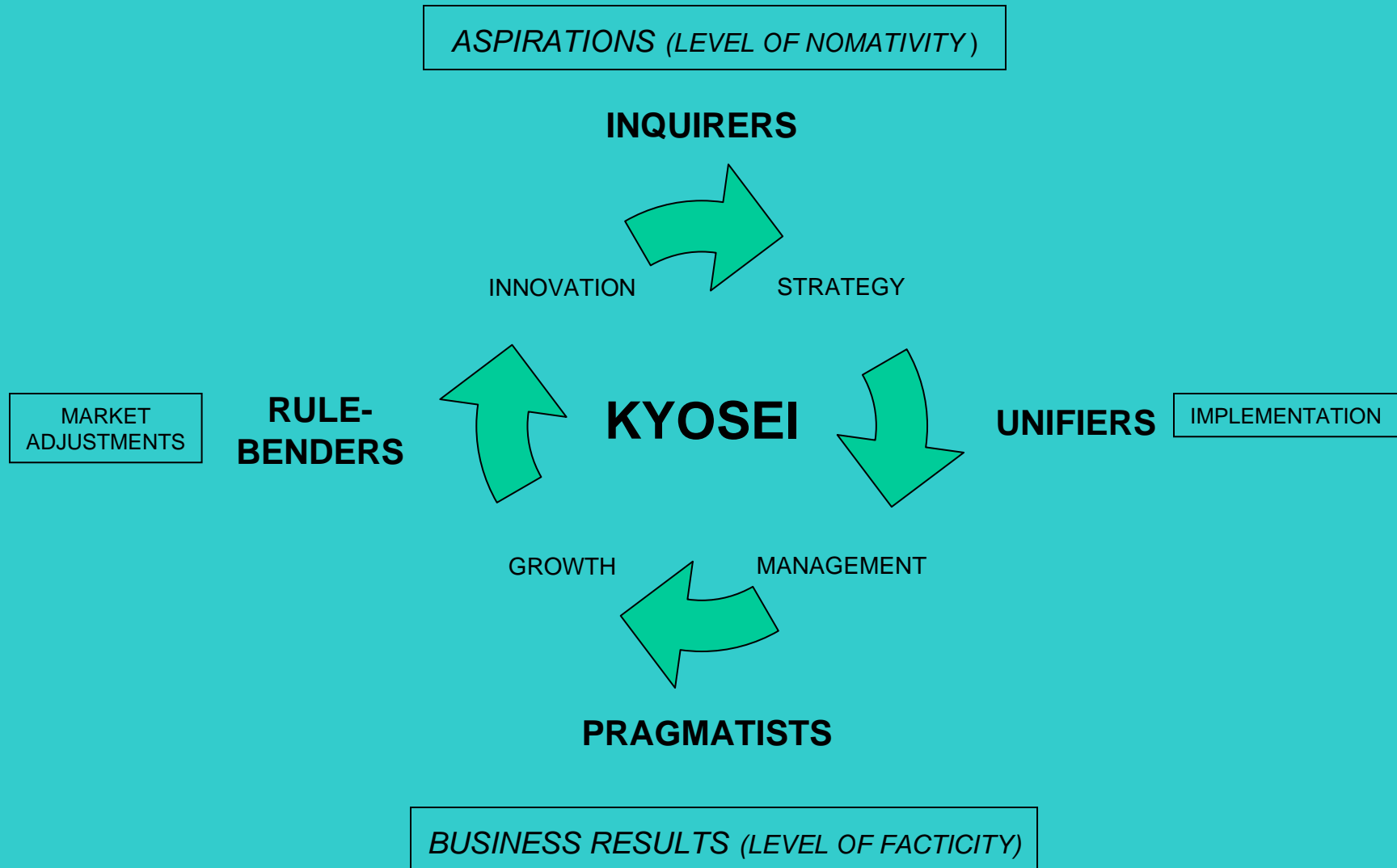
- Value of your BRAND-low, medium or high?
- Intensity of BRAND equity?
- What is your brand?
- % of customers who are very loyal?
- Do you sell on price, quality or value added?
- Do you stand behind your product or service?
- Is your product environmentally safe and results from sustainable technologies?
- 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

Ethical Leadership Profile



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 supplies/subcontracting/partners
- Encourage supplies/sub-contractors/partners repairness and incentiviveness
- 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