INVESTOR EXPECTATIONS ON CORPORATE SOCIAL RESPONSIBILITY

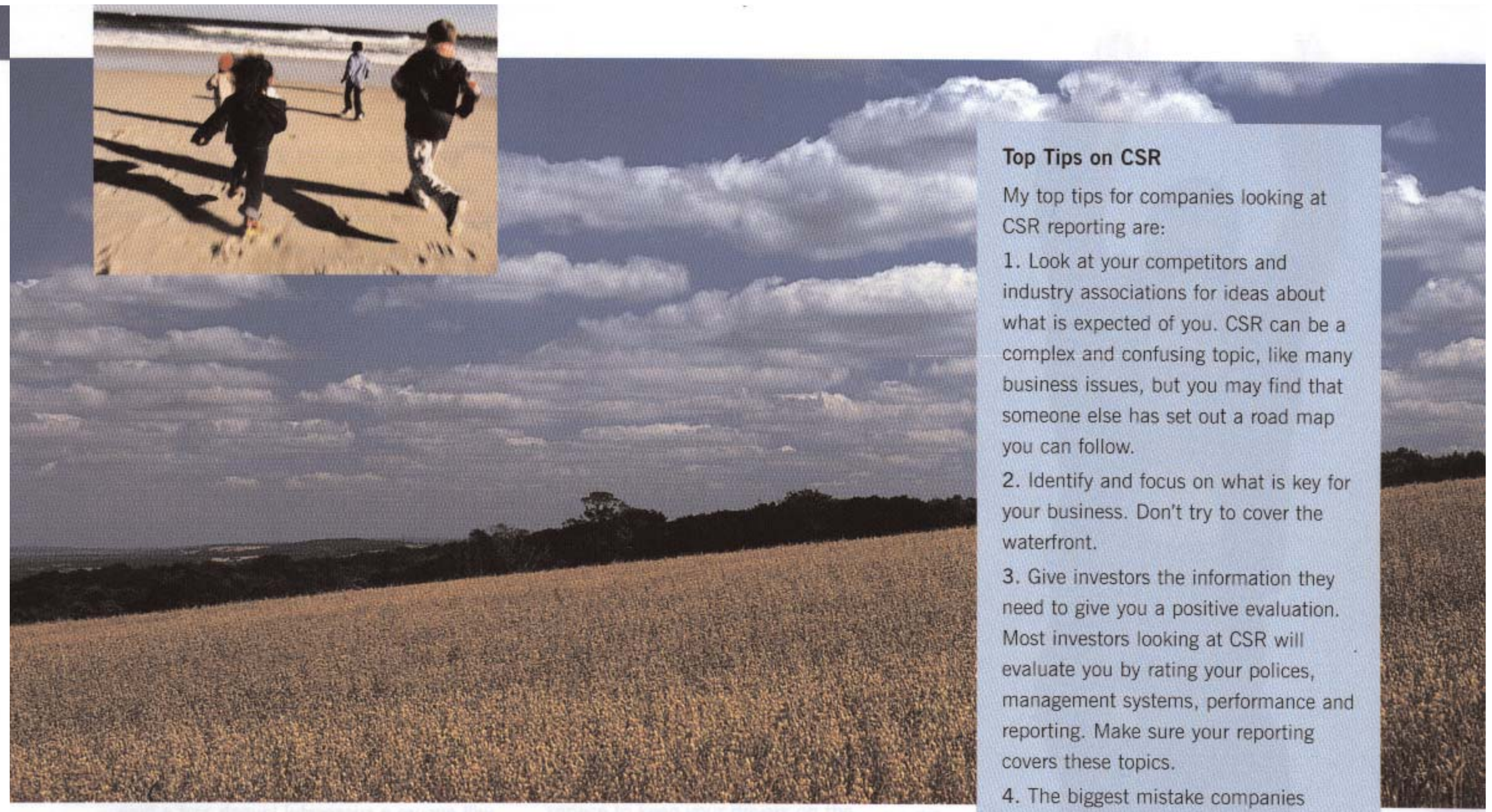
The topic of corporate social responsibility (CSR) has become increasingly high profile over the last few years. **Julie McDowell,** Head of SRI Investments at **Standard Life Investments** looks at the changing attitude of investors.

It is clear that investor expectations on CSR have altered significantly. In particular, growing numbers of investors expect to see company reporting on CSR issues. What they look for depends in part on the use to which they will put this information.

Investors generally look at CSR for two distinct purposes. First, for ethical funds they seek information on social, ethical and environmental issues in order to screen out companies that are involved in particular activities or fail to meet certain standards. These activities may or may not have a material impact on financial performance. Nonetheless, investors need to know about these issues in order to determine whether a company is an eligible investment for their ethical funds.

A second area of investor interest arises because many investors believe that companies that manage their social, ethical and environmental responsibilities well will enjoy comparative advantage in the long run. At Standard Life Investments, we believe that companies that fail to maintain adequate processes to manage these issues risk damage to their reputation, with consequent negative effects on their brand and image that could directly affect their financial performance. We use our analysis of CSR policies and practices to monitor material risks arising from social and environmental issues. In addition, this analysis contributes to our assessment of management ability to control risk, respond to competitive pressure, and adapt to changing environmental and social expectations.

We view the management of CSR issues in the same way we view the management of any business issue. We expect companies to identify the issues that they have determined are key to their business, tell us how they manage these issues, and assess how successful they have been at doing it.



Key gaps in company reporting

We see two key gaps in company reporting on CSR issues. First, many companies do not identify and focus on the issues that are key to their sector and the geographic areas of their operation. From our viewpoint, as an investor assessing risk and management ability, the key CSR issues vary depending on the nature and location of a company's business. A software company does not have the same environmental impacts as a mining company and we do not expect both companies to devote the same level of attention to measuring, monitoring and improving their environmental performance. And while it may be unnecessary for a company operating in continental Europe to have and enforce a policy on employees bringing firearms to work, it may be essential for a company operating in the US to do so.

In short, companies should focus their management and reporting efforts on the core issues for their own business.

The second major gap in company reporting is a lack of meaningful analysis. From our perspective, it is too often the case that when companies provide quantitative data on key performance indicators they do not explain why they have chosen to report on those indicators and do not analyse the data they report to determine whether their initiatives have been successful in achieving their policy goals.

Top Tips on CSR

My top tips for companies looking at CSR reporting are:

1. Look at your competitors and industry associations for ideas about what is expected of you. CSR can be a complex and confusing topic, like many business issues, but you may find that someone else has set out a road map you can follow.

2. Identify and focus on what is key for your business. Don't try to cover the waterfront.

3. Give investors the information they need to give you a positive evaluation. Most investors looking at CSR will evaluate you by rating your polices, management systems, performance and reporting. Make sure your reporting covers these topics.

4. The biggest mistake companies make is not telling their side of the story when they have been affected by sensitive and high profile issues. If you say nothing, people assume the worst. If you have been involved in a serious or controversial incident, report to your investors on what happened and what you are doing to make sure it doesn't happen again.

5. You don't have to produce a glossy report that costs thousands of pounds to write and print. Put the information on your website.

6. Don't wait until you have CSR wrapped up in pink ribbons to talk about it. Explain where you are and what you intend to you so that investors know you are addressing and not ignoring the issues.