

FTSE100 snapshot: Trends in ESG performance

Introduction

EIRIS has analysed the main UK share index representing the top 100 shares (FTSE100) to present a snapshot of environmental, social and governance (ESG) performance over the last five years (2003 – 2007).

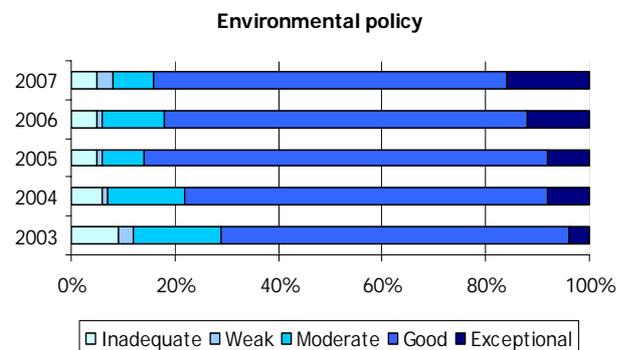
Key findings

- FTSE 100 companies are making good progress on ESG issues, however a small minority of companies continue to demonstrate poor performance
- Greatest improvements have been seen in environmental policy development, as well as human rights and supply chain management
- Progress has been slower in areas such as environmental disclosure, equal opportunities and board diversity
- Responsible investment, has and will continue to be, a key driver for improved corporate social responsibility
- Other drivers for improved performance include increased regulation, continued shareholder and stakeholder pressure or a recognition that proactive management of ESG issues can lead to competitive advantage
- The future trend is for continued improvement in management response and a widening of scope as ESG issues are increasingly viewed as business critical risk issues

Environment

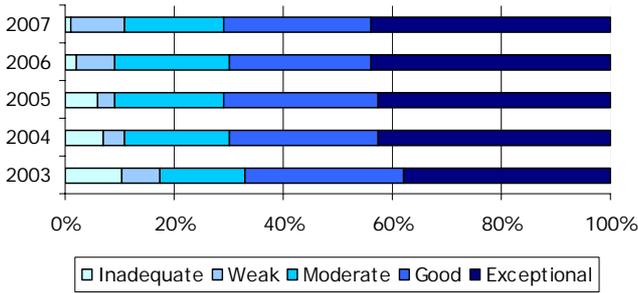
FTSE 100 companies on the whole perform well on environmental issues – here we take a closer look at the quality of environmental policy, management systems and reporting.

- In the last three years (2005 – 2007) over 80% of company policies and over 70% of management systems are assessed as 'good' or 'exceptional'
- Top performers are improving – we are seeing the number of companies assessed as 'exceptional' increasing



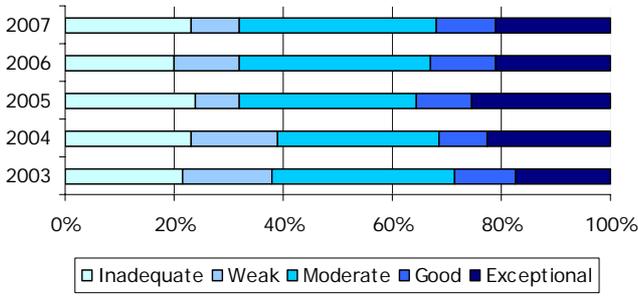
- There is a four fold increase in companies assessed as exceptional environmental policy (4% in 2003 rising to 16% in 2007)
- However, 5% of companies still have an 'inadequate' environmental policy (an improvement from 9% in 2003)
- A modest rise in quality of environmental management systems can be seen (38% assessed as 'exceptional' in 2003 rising to 44% in 2007)

Environmental management systems



- However, environmental reporting is still poor – a third of companies have inadequate or weak reporting

Environmental reporting

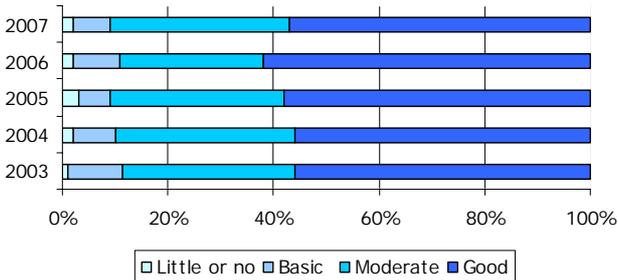


- Best in sector companies are coming under continued pressure to improve environmental performance and may also be seeing a competitive advantage from doing so.

Social & stakeholder issues

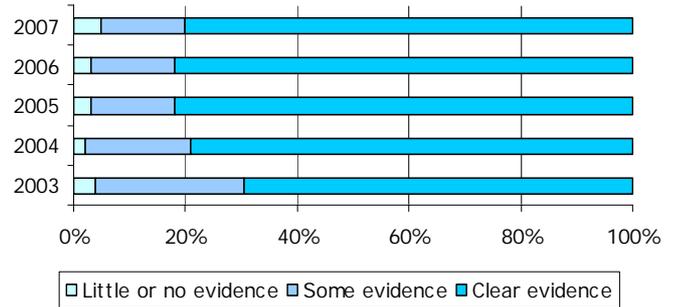
Performance on social and stakeholder issues including equal opportunities, health and safety, human rights, supply chain standards and stakeholder engagement has been relatively static over the previous five years.

Equal opportunities policy



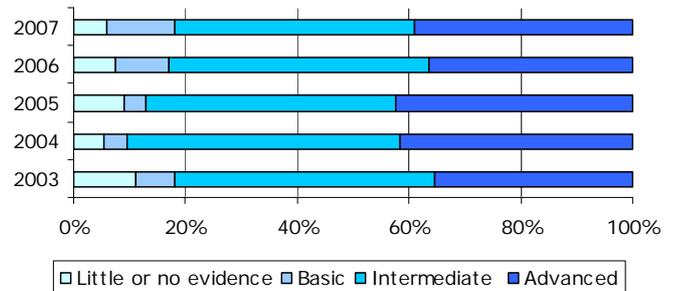
- Despite significant legislation in the area of equal opportunities 2% of companies do not have public policies and 14% do not have systems to support equal opportunities (e.g. flexible work arrangements) in place. These levels have remained relatively constant over the last five years.

Health & safety systems



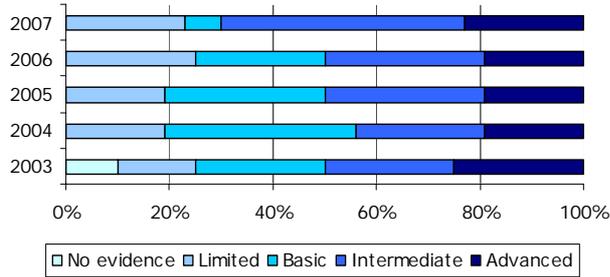
- Health and safety management systems have improved – 80% of companies now have clear systems in place (an increase from 69.5% in 2003)

Human rights policy



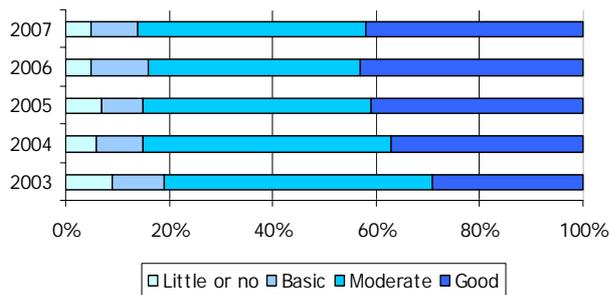
- Responsiveness to wider corporate responsibilities such as human rights has increased - 94% of companies operating in countries of concern have some form of human rights policy (an improvement from 89% in 2003). There are also improvements at the top end with 39% human rights policies assessed as advanced (from 35.5% in 2003), 15.5% of human rights systems (from 11% in 2003) and 21.5% reporting (from 15% in 2003).

Supply chain labour standards



- In 2007, an increase in management of supply chain labour standards is evident – the number of companies classified as having only a basic or limited response decreased from 50% in the preceding four years (2003 – 2006) to 30% in 2007

Stakeholder engagement

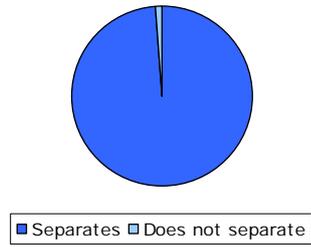


- An improvement in stakeholder engagement at the top end is evident – companies assessed as 'good' have increased from 29% in 2003 to 42% in 2007

Governance

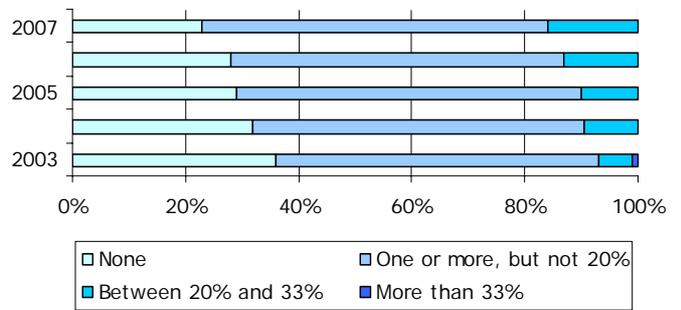
FTSE 100 companies perform well on traditional governance indicators such as separation of chair and CEO and presence of a bribery policy, however little progress has been on increasing female representation on the Board.

Positions of chair and CEO split



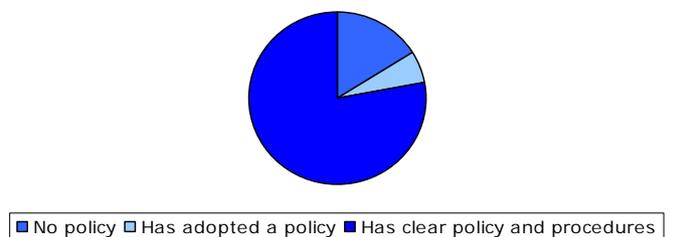
- Strong performance on corporate governance – 99% of companies separated the roles of chair and CEO in 2007 (rising from 95% in 2003).

Board diversity (% female directors)



- However, representation of women on the board remains low – 23% have no women on their boards (an improvement from 36% in 2003) and there remain no companies with over a third of the board comprising female directors

Bribery policy



- 16% of companies still do not have a public policy on giving and receiving bribes, although only 3% of companies have no code of ethics or business conduct.

- Compliance with the UK Combined Code is voluntary; however companies listed on the London Stock Exchange (LSE) are required to disclose application of the principles on a 'comply or explain' basis. Compliance is high in part due to stakeholder activism.

Conclusions

Overall FTSE 100 companies are making good progress on ESG issues; however a small minority of companies continue to demonstrate poor performance. Greatest improvements have been seen in environmental policy development, as well as human rights and supply chain management. Progress has been slower in areas such as environmental disclosure, equal opportunities and board diversity.

Responsible investment has and will continue to be a key driver. Improvements in best in sector companies are driven in particular by continued shareholder and stakeholder pressure or a recognition that proactive management of ESG issues can lead to competitive advantage.

The future trend is for continued improvement in management response of ESG issues and a widening scope of issues to address. Issues such as climate change, human rights and bribery are increasingly viewed as business critical risk issues. Investor engagement will play an important part in improving the performance of both the best practice and laggard companies.

About EIRIS

EIRIS is a leading global provider of independent research into the social, environmental governance and ethical performance of companies. EIRIS, a UK-based organisation with an office in the US and a representative office in Japan, together with its international research partners has a wealth of experience in the field of socially responsible investment (SRI) research. EIRIS provides comprehensive research on around 3,000 companies in Europe, North America and the Asia Pacific region. EIRIS is already retained by 70 institutional clients including pension and retail fund managers, banks, private client brokers, charities and religious institutions across Europe, the US and Asia. For more information on EIRIS product and services, please contact: clients@eiris.org

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