

Values for Money Reviewing the Quality of SRI Research

13.38 64.96 83.23 76.76 31.26 57.35 83.23 76.76 31.26 57.35 83.23 76.76
12.78 13.54 73.13 73.89 34.45 25.28 73.13 73.89 34.45 25.28 73.13 73.89
31.26 57.35 83.23 76.76 31.26 57.35 83.23 76.76 31.26 57.35 83.23 76.76
01.31 28.38 58.05 74.12 13.38 64.96 83.23 76.76 31.26 57.35 83.23 76.76
12.78 13.54 73.13 73.89 34.45 25.28 73.13 73.89 34.45 25.28 73.13 73.89
21.89 32.36 58.35 75.64 45.54 23.35 58.35 75.64 45.54 23.35 58.35 75.64
85.69 57.48 51.65 65.00 01.31 28.38 58.05 74.12 13.38 64.96 83.23 76.76
75.02 56.89 15.95 85.84 12.75 83.94 15.95 85.84 12.75 83.94 15.95 85.84
70.56 33.52 78.98 58.04 22.96 36.05 78.98 58.04 22.96 36.05 78.98 58.04
02.20 02.65 91.58 75.61 85.69 57.48 91.58 75.61 85.69 57.48 91.58 75.61
76.76 31.26 57.35 07.77 75.02 56.89 57.35 07.77 75.02 56.89 57.35 07.77
73.89 34.45 25.28 98.25 70.56 33.52 25.28 98.25 70.56 33.52 25.28 98.25
45.54 23.35 00.68 07.65 02.20 02.65 00.68 07.65 02.20 02.65 00.68 07.65
74.12 13.38 64.96 83.23 76.76 31.26 64.96 83.23 76.76 31.26 64.96 83.23
32.33 12.78 13.54 73.13 73.89 34.45 13.54 73.13 73.89 34.45 13.54 73.13
23.88 32.36 58.35 75.64 45.54 23.35 58.35 75.64 45.54 23.35 58.35 75.64
65.00 01.31 28.38 58.05 74.12 13.38 28.38 58.05 74.12 13.38 28.38 58.05
85.84 12.75 83.94 12.36 32.33 12.78 83.94 12.36 32.33 12.78 83.94 12.36
58.04 22.96 36.05 89.56 23.88 36.05 89.56 23.88 32.36 36.05 89.56
75.61 85.69 57.48 51.65 65.00 85.69 57.48 51.65 65.00 01.31 57.48 51.65
07.77 75.02 56.89 15.95 85.84 75.02 56.89 15.95 85.84 12.75 56.89 15.95
98.25 70.56 33.52 78.98 58.04 70.56 33.52 78.98 58.04 22.96 33.52 78.98
07.65 02.20 02.65 91.58 75.61 02.20 02.65 91.58 75.61 85.69 02.65 91.58
83.23 76.76 31.26 57.35 07.77 76.76 31.26 57.35 07.77 75.02 31.26 57.35
73.13 73.89 34.45 25.28 98.25 73.89 34.45 25.28 98.25 70.56 34.45 25.28
75.64 45.54 23.35 00.68 07.65 45.54 23.35 00.68 07.65 02.20 23.35 00.68
58.05 74.12 13.38 64.96 83.23 74.12 13.38 64.96 83.23 76.76 13.38 64.96
12.36 32.33 12.78 13.54 73.13 32.33 12.78 13.54 73.13 73.89 12.78 13.54
89.56 23.88 32.36 58.35 75.64 23.88 32.36 58.35 75.64 45.54 32.36 58.35
51.65 65.00 01.31 28.38 58.05 65.00 01.31 28.38 58.05 74.12 01.31 28.38
15.95 85.84 12.75 83.94 12.36 85.84 12.75 83.94 12.36 32.33 12.75 83.94
58.04 22.96 36.05 89.56 23.88 22.96 36.05 89.56 23.88 22.96 36.05 89.56
85.69 57.48 51.65 65.00 85.69 57.48 51.65 65.00 85.69 57.48 51.65 65.00
15.95 85.84 12.75 83.94 12.36 85.84 12.75 83.94 12.36 32.33 12.75 83.94
78.98 58.04 70.56 33.52 78.98 58.04 70.56 33.52 78.98 58.04 22.96 33.52
00.68 07.65 02.20 02.65 91.58 07.65 02.20 02.65 91.58 02.20 02.65



02	Executive Summary
----	--------------------------

04	1.0 Introduction
----	-------------------------

05	2.0 Purpose of this Report <ul style="list-style-type: none">– The principal goals– The audience– The scope of the research
----	--

06	3.0 Methodology <ul style="list-style-type: none">– Research activities– The Selection Committee
----	--

07	4.0 Materiality: assessing what really matters <ul style="list-style-type: none">– What is materiality, and why is it important?– How is this relevant to SRI analysis?– How we plan to address the issue within the report
----	--

08	5.0 The Shortlist: selecting SRI research organisations
----	--

09	6.0 Assessment of SRI Research Organisations
10	6.1 Research methodology
14	6.2 Quality of information sources used
17	6.3 Quality of research, management and processes
19	6.4 The research team
21	6.5 Company coverage and client service quality
24	6.6 Transparency and governance
26	6.7 Case studies <ul style="list-style-type: none">– Sell-side brokers– The Voluntary Quality Standard for Corporate Sustainability and Responsibility Research (EVQS)

27	7.0 The Company Perspective
----	------------------------------------

29	8.0 Conclusions and Recommendations
----	--

32	9.0 A Final Word: Future challenges for SRI research organisations
----	---

Forewords

SustainAbility / onValues foreword

When we started the work on this project in the summer of 2003 the role financial analysts had played (or not played) in directing investors' decisions with respect to the large corporate scandals of the past years was a much debated topic in the media. We also witnessed a wider discussion about the importance of improving the quality of research and ensuring its independence from investment banking and other business activities.

The focus of this report is on a still small and specialised subset of the investment analyst community focusing specifically on environmental and social criteria. While these Sustainable and Socially Responsible Investment (SRI) analysts have not been at the centre of the media storm, they nonetheless also face many of the challenges of their mainstream colleagues, especially with regard to the quality and independence of their research. In addition, after many years of successful growth and considerable improvements in research methodologies, the SRI research community is now challenged by new players and eroding margins.

It is clearly a time of big challenges but also considerable opportunities for the SRI research world. It is also a time of transition and consolidation in the industry which – we hope – will lead to further innovations in 'second generation' types of SRI research models. This, however, will only happen with the active engagement of investors – particularly some of the large institutional investors. Those investors with a strategic interest in this field need to better articulate their needs for specialist SRI research and actively help to shape future developments at a critical time in the evolution of this emerging industry.

Seb Beloe Director of Research
and Advocacy, SustainAbility

Ivo Knoepfel Founder and
Managing Partner, onValues

Mistra foreword

Mistra is a Swedish foundation that funds environmental research. The foundation focuses in particular on supporting strategic environmental research that aims to solve major environmental problems and contribute to the development of a sustainable society. The foundation was established by the Swedish Government in 1994, distributes about SEK 250 million a year to environmental research from a capital base that was worth SEK 3.2 billion as of December 2003.

The further development of SRI research is of increasing importance to Mistra for two reasons. Firstly, the business community has an important impact on our natural environment and SRI therefore represents a legitimate research topic in its own right, and secondly Mistra has its own assets which we want to manage in a sustainable manner. Mistra therefore has a direct interest in contributing to the development of the next generation of SRI-services.

In particular, we see our role – alongside other like-minded asset managers – as helping to define both what asset management for sustainable development is and should be, as well as how it should be applied in operational investment. This report represents our second contribution to the debate which we hope is seen to be constructive and builds upon our first report *The Screening of Screening Companies* produced by Miljöeko AB and SustainAbility in 2001.

Mistra appreciates the cooperation with SustainAbility and onValues on this report and hope that it stimulates a vivid debate on the future of independent SRI research services, a future that in no way is guaranteed.

Måns Lönnroth
Managing Director, Mistra

Executive Summary

Specialised SRI research houses are clearly at a cross-roads in their development.

Sustainable and Socially Responsible Investment (SRI) research organisations have been pivotal in building the SRI market in the past 20 years and have played a vital role in driving improvements in corporate social and environmental performance. However, while still young and yet to reach their full potential, the evidence suggests that these organisations are now coming up against a range of constraints that may radically reduce their future influence.

This report, based on a review of over 35 specialist SRI research organisations and supplemented with in-depth interviews with 15, concludes that SRI research organisations will have to review fundamentally many aspects of their research processes if they are to retain and build their central role in socially responsible investment markets.

SRI research at a cross-roads

Specialised SRI research houses are clearly at a cross-roads in their development. Never before have the opportunities for independent SRI research been so great. The erosion in the perceived quality and independence of mainstream analysts, pressure on financial institutions to outsource their research capabilities, and the decision by large institutional investors to rely more on independent sources of research have all given a considerable boost to specialised research houses. These trends, combined with the gradual but persistent integration of social and environmental issues into mainstream investor analysis, should also significantly benefit independent SRI research houses.

On the other hand, the ongoing price erosion in the amount investors are willing to pay for research, the emergence of new competitors (e.g. 'sell-side' brokers developing SRI capacity) and higher investor and company expectations of research, are all putting the already weak financial viability of specialised SRI research organisations under pressure.

Major weaknesses in SRI research

Based on our research, we conclude that most specialised SRI research organisations are not configured to exploit these opportunities fully. We also believe that there is a real risk that some of them will not be able to manage the emerging challenges and risks. In particular:

- Only three research organisations in this survey currently analyse the link between social/environmental issues and material impacts on investment value drivers.
- Most research methodologies are still primarily generic, that is they are not tailored to address sector-specific issues.
- Data are still gathered primarily from the companies themselves with little – if any – verification.
- Only one organisation had had its research process and results independently verified.
- Research is generally undertaken by analyst teams that, while multi-cultural and usually qualified in a social and/or environmental discipline, typically lack the skills needed to address financial and strategic considerations.
- A wide range of services is offered to clients, but these are still based primarily on European or North American large cap companies.

The evidence suggests that these organisations are now coming up against a range of constraints that may radically reduce their future influence.

From 'first generation' to 'second generation' SRI research

This profile reflects the development of the majority of specialised SRI research organisations which have developed to service a very specific niche driven by the individual concerns and perspectives of 'ethical' investors. However, as the wider sustainable development (SD) and corporate social responsibility (CSR) agendas have emerged, mainstream investors have become increasingly interested in a variety of linked concepts (e.g. reputation risks, corporate governance, management quality).

While still small, we conclude that this emerging market is not yet well served by the current 'first generation' approach to SRI research. Moreover, SRI analysts themselves acknowledge that the opportunity to leverage social and environmental issues into mainstream investment decision-making lies in crafting 'second generation' tools and methodologies that respond to this growing appetite in the mainstream.

Recommendations for SRI research organisations

While it is not clear whether specialised SRI research organisations have the capacity to exploit these opportunities, what is abundantly clear is that there are a number of actions they could take to improve their positioning with regard to these trends.

In particular, we recommend at a minimum that these organisations urgently and radically review their approaches to ensure that their research:

- focuses primarily on identifying social and environmental issues that are material to business performance.
- explicitly assesses the potential impacts of such issues on the company's investment value drivers.
- includes wider sources of financial and strategic intelligence in the assessment process.
- can be (and is) independently reviewed and verified.
- is undertaken by research teams that include analysts with significant financial and business experience.

Questions facing investors

The key to the future development of specialised SRI research lies in large part with the mainstream investment community. In particular some pressing questions facing investors include:

- Will the ongoing erosion in research prices and increased competition drive research organisations to develop 'second generation' type models along the lines indicated above, or will the challenges prove too demanding and put the industry out of business?
- Will investors choose to support existing research organisations or will they instead provide capital to set up new research organisations that better meet their needs?
- Should investors focus on helping a leadership group of research organisations to evolve their approaches and become more financially stable?
- Should research organisations continue to offer research for stand-alone SRI products or should their input increasingly be tailored for integration into traditional investment products?

It is our hope that this publication will help in beginning to find the answers to these questions.

1.0 Introduction

This is a time of big risks, but also potentially huge opportunities for specialised SRI research houses.

Sustainable and Socially Responsible Investment (SRI) research organisations have been pivotal in building up the SRI market in the past 20 years. They have developed the intellectual framework, the tools and the communication strategies which form the basis on which the whole SRI industry rests. Today, the specialised research houses provide the second largest share of research needed by the SRI industry,⁰¹ and represent a key sector in further developing the concept of corporate social responsibility (CSR).

The role of specialist SRI research could radically change in future, however, if financial institutions continue to integrate aspects of SRI into their own in-house research activities. This process was described in a recent survey of mainstream European fund managers and analysts by CSR Europe, Deloitte and Euronext.⁰² Seventy-nine per cent of respondents supported the view that social and environmental risk management has a positive impact on a company's long term market value. Fifty-two per cent of respondents believe that social and environmental considerations will become a significant aspect of mainstream investment decisions in the next two years.

The gradual integration of specific elements of the SRI concept – such as reputational risks, corporate governance (including environmental and social issues) and management quality – into the investment decision processes of mainstream financial institutions can already be observed today. Seventy-six per cent of fund managers and analysts interviewed by CSR Europe see a clear link between non-financial risks and shareholder value and systematically take into account issues such as the ability to innovate (65%), corporate governance and risk management (54%) and the management of customer relations (49%).

Environmental impact and supply chain management are considered to be the most relevant non-financial areas of risk for certain sectors and companies. For many specialised SRI research organisations, another on going challenge is to break out of the relatively small market niche for purely ethical screening and research. However, if they are to succeed in breaking into the mainstream of investment decision-making, it will be essential to prove that their research contributes to financial value creation, albeit in the long term or in combination with sustainability and ethical criteria.

In 2001, Mistra released the report *The Screening of Screening Companies* produced by Miljöeko AB and SustainAbility, with the aim of providing a summary of SRI-market developments and key characteristics of best practice, with a view to improve the quality of SRI-products in the future.

In this, Mistra's second report on SRI research, we take a more in-depth look at the entire research process of SRI research organisations in order to gain a more complete overview of the organisations' activities, and to generate a better understanding of best practices. We also pose what is in many ways the key question behind effective SRI research, *Do SRI research methodologies identify the material sustainability risks and impacts of companies?*

As part of this research exercise we also wanted to engage companies – who are usually at the sharp-end of SRI research – in order to better understand their views and experiences of SRI research methodologies. A summary of their views appears in Chapter 7.

Additionally, we have included some analysis of a relatively new set of players within the SRI research community. Although still small, sell-side brokers have the potential to alter radically the SRI research landscape and emerge as a potentially significant competitor for specialised SRI research organisations. We have briefly addressed this group in section 6.7.

This is a time of big risks, but also potentially huge opportunities for specialised SRI research houses. The trust in the quality and independence of mainstream analysts has been strongly eroded in the past years. In the US, the pressure on financial institutions to outsource some of their research capabilities has increased and the decision by large institutional investors to rely more on independent sources of research has given a great boost to specialised research houses. SRI research institutions should also benefit from this trend.

On the other hand, ongoing price erosion and new emerging competitors are putting the already weak financial viability of specialised SRI research institutions at stake. We explore some of these future challenges in the final chapter of this report.

2.0 The Purpose of this Report

The primary audience for this report includes investors, investment professionals and the SRI research community.

The principal goals

The overall purpose of this report is to help SRI research organisations and the wider SRI community to become more effective in addressing and influencing mainstream investment decision-making.

Earlier studies have been published analysing SRI research practices,⁰³ but most of this research has been aimed at describing the interactions between research organisations and companies with a particular focus on the methodology that is being used. This report is intended to take the analysis a step further by:

- determining what constitutes best practice in the SRI research process and reviewing current practice against this.
- establishing whether SRI research identifies and assesses companies' material sustainability issues.
- identifying organisations displaying best practice in SRI research.

In order to get more detailed insight into the research process, the following six core criteria were assessed (see table below).

The audience

Given the nature of the research topic, the primary audience for this report includes investors, investment professionals and the SRI research community, and specifically the specialised research organisations that were the focus of the work.

However, we also wanted to provide **investors** (in particular institutional investors) with the insight necessary to articulate their own expectations and demands when buying SRI research as well as outlining what they can do to strengthen the still nascent field.

An important sub-set amongst investors is the **asset management** community who use SRI research in the development and management of their own SRI products and funds. This report is intended to help them get the best out of their research partners.

Furthermore, the study aims to put **companies** in a position to engage with SRI research in a more effective manner, providing the sort of information that allows for a quality assessment (see chapter 7).

The scope of the research

The primary focus of the research was on specialised SRI research organisations who sell company research and ratings information on the open market to asset managers, investors and other clients. While we readily acknowledge that this focus excludes the efforts of many mainstream and specialist asset managers with in-house research teams, this selection was necessary given resource constraints for this project. Nonetheless, we strongly recommend that further research will need to engage these groups in a similar in-depth review to establish whether they might also display aspects of best practice in SRI research.

While we have excluded groups that do not produce research that is publicly available on the open market, there is one exception – the research of sell-side brokers. As previously mentioned, these organisations are beginning to produce SRI research which – although not available on the open market – is widely accessible and represents an important new development that has the potential to impact the SRI research market radically.

Core Criteria

1
Research methodology

2
Quality of information sources used

3
Quality of research, management and processes

4
The research team

5
Company coverage and client service quality

6
Transparency and governance

3.0 Methodology

Research activities

While the aim of this report is not to produce a ranking of SRI research organisations, it does nonetheless identify specific organisations that represent examples of best practice in the different criteria. In order to ensure the selection of best practice examples was robust, our methodology involved the five key phases shown in the table below.

The Selection Committee

On 19 August 2003 SustainAbility convened a committee of experts within the field of SRI. The committee comprised:

- **Eric Borremans**
Head of Sustainability Research,
BNP Paribas Asset Management (FR)
- **Timo van den Brink**
Centre for Innovation and
Sustainable Development (CIMO)
Vrije Universiteit Amsterdam (NL)
- **Dominique Habegger**
Independent (former head of
SRI research, Lombard Odier) (SWITZ)
- **Don Reed**
Ecos Corporation (US)

The role of the Selection Committee was to:

- agree a working definition of materiality for the project.
- refine the criteria for assessing best practice.
- provide insight into what best practice SRI research is and could look like.
- discuss the criteria for selection of the universe of organisations.
- generate a shortlist of organisations for further analysis by SustainAbility (see chapter 5).
- provide guidance for the further analysis of shortlisted research organisations.

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Develop a working definition of materiality in the context of this report (see chapter 4).	Develop guidelines and assessment criteria, for analysing best practice in SRI research. This process involved both internal research conducted by SustainAbility and onValues as well as input from a Selection Committee of SRI experts (see above).	Identify a shortlist of best practice SRI research organisations from an initial universe for further analysis by SustainAbility. The initial universe of organisations was then developed by SustainAbility with additional input from the committee. The shortlist was then selected from this universe by the Selection Committee (see chapter 5).	Analyse the short-listed organisations to identify best practice in the SRI research process. A questionnaire was then developed by SustainAbility and onValues for this purpose, coupled with interviews with the selected research organisations. ⁰⁴ SustainAbility analysed the responses and selected best practice examples.	Using a questionnaire, ⁰⁵ interview companies to assess their experiences of SRI research.

4.0 Materiality: assessing what really matters

Issues that are 'material' to key stakeholder groups can very quickly become financially material to a company.

What is materiality, and why is it important?

In 2002 SustainAbility and UNEP published a benchmark report of corporate sustainability reporting.⁰⁶ That report drew attention to a growing problem in corporate reporting that the authors called 'carpet bombing': As was discussed in that report:

Many reporting companies seem to have resorted to inundating readers with information, presumably in the hope that readers will be able to find what they are looking for.

What was lacking, the report argued, was any understanding of which of the myriad of issues confronting companies was the most important. Or, to put it another way, which of the issues were 'material' to the company. The concept of materiality was originally derived from the field of financial auditing, and relates to:

*Impacts that would cause an informed person to reach a different conclusion or make a different decision about representations shown in financial statements.*⁰⁷

The exclusive financial basis for this definition is, however, now being questioned. Several CSR organisations have argued that materiality ought to be 'redefined' to include a broader set of stakeholders. In particular, the materiality principle that underpins the AA 1000 assurance standard states that:

*The reporting organisation has included in the public report adequate information about its sustainable performance for its stakeholders to be able to make informed judgements, decisions and actions.*⁰⁸

In other words, materiality should no longer be limited to issues that would cause an informed person to change their mind about financial statements, but should embrace all those issues that would enable stakeholders to make informed decisions including social, environmental and economic issues.

How is this relevant to SRI analysis?

There is of course a link between the two definitions of materiality. Issues that are 'material' to key stakeholder groups can very quickly become financially material to a company. There are plenty of examples of how bad corporate practice with regard to consumers, the environment or human rights have impacted company financial performance.

The relationship between key sustainability issues and investment value drivers is clearly vital for SRI and mainstream investors interested in the financial performance of their investments. Identifying these sustainability issues and understanding how they link with investment value drivers in many ways represents the 'holy grail' for this form of analysis.

While this discussion is less relevant to those investors looking specifically to exclude companies on the basis of particular activities which are deemed to be unethical, for the growing band of research organisations that are interested in making this financial connection, the issue of materiality remains central.

How we plan to address the issue within the report

It is not the objective of this report to revisit the debate concerning the redefinition of materiality. There are already several excellent publications on this subject.⁰⁹ However, in order to provide a foundation for the research, a working definition of materiality was needed.

Given our focus on the financial community, and the specific objective of this report to foster more robust and higher quality research methodologies and approaches, we have chosen to base our definition primarily on the traditional understanding of materiality such that:

While recognising that a range of social, environmental and economic issues may be of relevance to different stakeholder groups, these issues are only considered to be material where they have actual or potential impacts on a company's investment value.

5.0 The Shortlist: selecting SRI Research Organisations

The number of specialised SRI research organisations (ROs) has increased markedly in the past few years. When we undertook our first research into SRI in 1999,¹⁰ there was only a handful of specialised research organisations, but in defining the universe for this report in 2003 we have listed 35 including organisations in Asia, Australasia, North America and Europe. This initial list of research organisations contained only SRI and corporate governance research organisations, with core businesses focused on the provision of company research, indices and ratings. Organisations with consultancy as their core business were excluded, as were in-house research teams at mainstream financial institutions.

In order to ensure that our initial universe was comprehensive, the Selection Committee (see section 3) added additional organisations to this list, before selecting a shortlist of organisations for SustainAbility to analyse further.¹¹ The organisations that were selected are listed in the following tables.

European Organisations	
Centre Info ^{SR}	Switzerland
CoreRatings	UK
Covalence	Switzerland
Deminor Ratings ^{CG}	France
Dutch Sustainability Research (DSR)	Netherlands
EIRiS	UK
Ethibel / Stock at Stake ^{SR}	Belgium
Oekom Research AG	Germany
SAM Research	Switzerland
SERM	UK
Vigeo	France

North American Organisations	
Innovest Strategic Value Advisers	USA
Investor Responsibility Research Center (IRRC)	USA
KLD ^{SR}	USA
Michael Jantzi Research Associates ^{SR}	Canada

^{SR} Denotes members of the SiRi Group (now known as SiRi Company)

^{CG} Denotes focus on corporate governance only

6.0 Assessment of SRI Research Organisations

This chapter represents the core of the analysis in this report and contains a framework for the assessment of current best practice in SRI research. This framework was the product of research undertaken by SustainAbility and onValues, as well as the input of our Selection Committee. For the following six core criteria we developed a set of sub-criteria and best practice elements which were then used for the analysis of the organisations shortlisted in chapter 5.

In order to provide an overview of current industry practice – and to protect potentially commercially sensitive information – the information has been aggregated for each criterion. However, in five of the six elements, three organisations have been highlighted that represent best practice.

This is combined with an additional section based on interviews with the research organisations that provides overall insights and recommendations for SRI ROs on how to improve practices in each area.

Core Criteria and Sub Criteria

1 Research methodology	2 Quality of information sources used	3 Quality of research, management and processes	4 The research team	5 Company coverage and client service quality	6 Transparency and governance
<ul style="list-style-type: none"> – Research focus – Rationale for selection of criteria – Methodology review process – Sector specific criteria 	<ul style="list-style-type: none"> – Information sources – Access to wider sources of information – Information gathering from companies – Company interaction 	<ul style="list-style-type: none"> – Quality management – Verification of results – Data handling and storage 	<ul style="list-style-type: none"> – Size of team – Experience of team 	<ul style="list-style-type: none"> – Coverage – Investor services – Direct access to analysts – Company services – Monitoring – Report quality 	<ul style="list-style-type: none"> – Ownership of company – Publication of methodology and results – External alignment – Conflicts of interest

6.1 Research methodology

Definition: the comprehensiveness of the research methodology and its focus on materiality and sector specific aspects.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Research focus The research focus should be clear and comprehensive in its coverage of material issues, including links between materiality and clear investment value drivers, and defining these at both the general and sector-specific level.</p>	<ul style="list-style-type: none"> – Comprehensiveness in environmental, social, economic (triple bottom line) criteria covered, including clarity in defining the economic dimension. – Research is consistent with stated goals. – Both risks and opportunities are taken into account. – Research methodology explicitly takes into account financial performance utilising financial value driver analysis, and is consistently applied throughout. – Methodology takes into account sector-specific impacts. – Methodology is able to identify material issues. – Rationale of methodology is not one of multiple bottom-lines, but of different dimensions leading to one (financial) bottom line. 	<ul style="list-style-type: none"> – Although using different rating and assessment scales, criteria, and information sources, all of the methodologies assessed among the shortlist were focused on identifying the key strengths, weaknesses and risks of a company's sustainability policies, management and performance impact, across the triple bottom line. – A large number of the ROs interviewed stated that links to financial value and the identification of material impacts was one of the key issues being considered for future methodology development. However, only three methodologies explicitly attempted to link these risks to investment value drivers.
<p>Rationale for selection of criteria (in the research methodology) Clarity should exist as to how assessment criteria within the methodology have been identified, and the rationale for their inclusion.</p>	<ul style="list-style-type: none"> – Criteria selected in a stakeholder inclusive manner. – Balanced focus on strategy, management, performance, products and technologies. – Criteria developed based on a top-down approach starting from analysis of macro-economic scenarios, mega-trends etc. 	<ul style="list-style-type: none"> – There are six key drivers for criteria development: <ol style="list-style-type: none"> 1 Internationally recognised standards (e.g. ILO, OECD, UN, GRI). 2 Internal research and development. 3 Stakeholder engagement. 4 Clients (this is particularly the case for investors with screen-driven mandates). 5 Strategy consultants, think tanks. 6 Research on financial performance indicators. – Overall, ROs adopt a good balance between policies, management and performance. However, a few ROs have focused their assessments more heavily toward the performance element. – The majority of methodologies assessed were developed with a top-down approach, with criteria selection based on key sustainability issues. However, several ROs supplemented this with bottom-up approaches in developing the sector specific elements of the methodology, by analysing industry specific issues before developing supplementary assessment criteria.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Methodology review process To ensure that the methodology reflects developments within the wider CSR agenda, the general methodology framework should undergo regular review.</p>	<ul style="list-style-type: none"> – Frequency and depth of methodology review, including Board involvement, company, client and stakeholder consultation. – Methodology and process are continuously challenged, and improved and updated if necessary. – Clear leadership within review process, e.g. Board or Advisory Committee level. 	<ul style="list-style-type: none"> – A variety of different approaches are used to review the methodology. These include: <ol style="list-style-type: none"> 1 Internal consultation and development. 2 Advisory committee input and guidance. 3 Stakeholder consultation. 4 Client review and feedback. – The majority of ROs undertook their reviews internally, though usually in consultation with stakeholders in order to test the validity and relevance of the suggested updates. A quarter of the ROs used their advisory panels as a core element of the review process.
<p>Sector specific criteria</p>	<ul style="list-style-type: none"> – Sector specific criteria identified in a stakeholder inclusive fashion, identifying all relevant risks and opportunities. – Ongoing process for monitoring industry trends. – Balance between analyst independence and central quality management in updating sector-specific criteria. 	<ul style="list-style-type: none"> – All bar two of the ROs assessed sector specific issues and impacts. However, the majority do not have a customised approach to developing industry specific criteria: <ol style="list-style-type: none"> 1 Ten ROs employed an overlay or weighting approach to the general criteria. This way, criteria of low significance to a specific sector are reduced to minimise the impact on the assessment/rating. 2 Three ROs used a process of sector specific risk mapping to form the basis of the assessment. 3 For two groups this formed the core of the assessment, while the third uses it as a supplement to the general methodology. – Within the majority of ROs assessed, monitoring and identification of sector specific issues rests primarily with the sector analyst. New issues that may warrant modification or additional criteria are then discussed with the Head of Research. However, further testing on a wider stakeholder audience is not carried out as a systematic process in many ROs.

As many of the research organisations are relatively young, few have undertaken major updates of their methodologies

Best Practice Organisations
<p>CoreRatings Innovest SAM Research</p>

Insight and Future Developments

Insufficient focus on materiality and value creation. The key focus of this report has been on identifying SRI research methodologies that identify the material sustainability impacts of companies.

All reviewed methodologies identified specific sustainability strengths, weaknesses and risks (both generally and to differing degrees sector specific), but only three had built into their model the link to investment value drivers. Among the specific value drivers that were identified were shareholder value (which is determined in part as a function of other drivers), revenue, regulatory liability and cost of compliance, operational efficiency, access to capital, customer attraction and retention, brand value and reputation, human and intellectual capital, risk profile, innovation and licence to operate.

While linking sustainability issues to value drivers is still relatively unusual in SRI research, this is expected to change as social and environmental issues move further into mainstream business analysis. Interestingly, even some ROs that don't currently make the link to investment drivers are actively reviewing modifications that would make this link more explicit in their methodologies.

Best Practices / Innovative Approaches	Organisations
Linking company risk to investment value drivers	CoreRatings Innovest SAM Research
Strong sector specific approach through tailored supplement questionnaires (in addition to general questionnaire), accounting for about 40% of the total assessment valuation	SAM Research
Process of mapping sector specific key issues most likely to impact companies financially. Weightings are determined through factors such as regression analysis and financial and strategic relevance.	Innovest
Development of sector risk methodologies analysing key issues, underlying impacts and associated risks for companies in a given sector, followed by analysis of investment effects of different risks.	CoreRatings

Some research organisations that don't currently make the link to investment drivers are actively reviewing modifications that would make this link more explicit in their methodologies.

Emerging standards help criteria

development. The need to develop criteria and indicators that are relevant and measurable by companies is a key consideration in trying to gain an effective insight into the company's operations and impacts. The growing use of standardised indicators significantly simplifies the task facing companies and research organisations and standards such as the GRI reporting guidelines are proving useful, particularly with regard to performance indicators.

Lack of appropriate sector specific

indicators. While the top-down development of indicators capture the key macro sustainability trends within research methodologies, customisation that includes sector specific indicators is vital in order to address issues that are uniquely material to a specific sector.

One approach that several ROs use involves adjusting weightings or 'activating' specific elements of a general methodology to reflect sector differences. However, because this approach does not include a detailed perspective on sector specific issues, it runs the risk of missing key sustainability issues.

Review process still immature.

As the sustainability agenda continues to develop, it is vital that research methodologies (or elements therein) are regularly reviewed in order to identify and assess companies' key sustainability impacts effectively. However, the frequency of review needs to be balanced with the ability to compare results and ratings over time. Hence, while continuous modifications should be made to highlight the latest sustainability trends, major reviews should only be undertaken approximately every two years.

The majority of ROs update their methodologies annually, with incremental changes being made throughout the year. However, as many of the ROs are relatively young, few have undertaken major updates of their methodologies and only about a third of ROs test proposed updates on their clients to assess whether they address their needs. See the European Voluntary Quality Standard (EVQS) case study (section 6.8) for further details with regard to research methodology and practices.

6.2 Quality of information sources used

Definition: the independence, reliability and robustness of data sources and the efficiency/effectiveness of the information gathering process.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Information sources Real insight into company performance requires the use of a broad range of information sources.</p>	<ul style="list-style-type: none"> – Information collection goes beyond company questionnaires and publicly available information (e.g. interviews with companies, stakeholders). – Robust, consistent and credible information sources used, identifying core and secondary sources. – Different stakeholder views are taken into account. – Use of externally verified information (where possible). – Self-assessment of data reliability, including systems to cross-check and validate. 	<ul style="list-style-type: none"> – ROs use a wide range of different information sources in order to gain an overall impression of a company’s policies, management and performance. These include company disclosure, NGOs, labour organisations, the media, international organisations and guidelines (e.g. the UN), governments, academia and experts/consultants. – However, company disclosure was by far the most significant single source of information, accounting for 40–80% of information input. – While ROs do not make clear distinctions between primary and secondary sources (as this varies by sector and issue), media sources were used for cross checking and identifying controversial business activities. – External verification of information was of key importance to ROs; however, the limited availability of verified information means that it is not yet possible to base analysis exclusively on such information.
<p>Access to wider sources of information Linking impact of sustainability issues to investment value requires access to wider mainstream strategic and financial research.</p>	<ul style="list-style-type: none"> – Analysts have access to wider research/intelligence resources (e.g. outside of traditional sustainability scope). 	<ul style="list-style-type: none"> – Use of wider sources of strategic and financial information was limited to mainly financial news wires such as Bloomberg. However, some ROs are more active in interacting with brokerage houses such as HSBC and WestLB. – Few ROs (25%) purchase external sources of SRI research.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Information gathering from companies Gathering information from companies effectively is of fundamental importance.</p>	<ul style="list-style-type: none"> – Data gathering process is organised in a systematic and efficient way (e.g. through online tools). – Approaches developed to address questionnaire fatigue, including collection of all publicly available information prior to engagement with companies. 	<ul style="list-style-type: none"> – ROs have made a number of changes in their approach to gathering information from companies in order to address the issue of questionnaire fatigue. The use of online tools and direct engagement with companies (through email, phone and visits) has increased, for example. – The most common form of information gathering within the shortlist (>50%) was the completion of all available public information by analysts, followed by an invitation to companies to complete the missing elements, or direct engagement with companies to address outstanding questions. – Currently only 25% of ROs have developed online tools that allow companies to input data and review the information collected on them.
<p>Company interaction In addition to quality 'desk top' research, direct engagement with companies can greatly improve the quality of research.</p>	<ul style="list-style-type: none"> – Test data with companies to ensure consistency and validity (reality check) – Intelligent and 'value added' (e.g. beyond information requests) approach to company engagement, through email, phone and visits. – Stated policies/processes for company engagement are fully implemented. 	<ul style="list-style-type: none"> – Company interaction is increasingly seen as a key element in trying to understand a company's business. – The average time spent by analysts researching companies prior to engagement is three days. However, this range varies greatly (1–7 days) due primarily to the different methodologies employed, and the company being assessed. – Average time engaging with companies on the phone ranged from 1–3 hours per company/year. However, for several research organisations, this time was primarily used in asking for additional information, and not engagement on specific issues, or to understand the business better. – While more than half of the ROs consider company visits a key element in their engagement strategy, time, financial and geographical constraints make systematic visits impossible for the majority of ROs. Furthermore, two ROs specifically stated that in their view blanket coverage was required to assure objectivity and impartiality, further underlining resourcing issues.

While many ROs have gone to great lengths to address 'questionnaire fatigue', much can still be done.

Best Practice Organisations
Innovest IRRC SAM Research

Insight and Future Developments

Need to widen sources of information.

As some ROs move their research methodologies closer toward identifying material issues and risks, and attempt to link them to investment value drivers (see above), the challenge will be to develop criteria that clearly assess sustainability issues for their financial and strategic relevance. We can expect therefore that access to sources of information highlighting these issues will become increasingly important.

Information gathering is still cumbersome for providers and researchers.

One of the most common comments made by companies about SRI ROs is the time it takes to respond to numerous requests for information and questionnaires (see chapter 7 below). While many ROs have gone to great lengths to address 'questionnaire fatigue', much can still be done. The use of online tools which allow companies to review, edit and update information held on them will help to improve further the transfer of information between companies and ROs. Specific innovations such as the SRI WorldGroup¹² online tool, which will allow users to search by company and/or issue and includes a feature providing users the opportunity to send email directly to the company, may also help significantly in addressing this issue.

Company engagement is critical but must be clearly independent.

Engagement with companies over CSR issues is widely seen as being extremely beneficial in improving the quality of assessments. The number and intensity of engagements with companies continues to increase in line with the need for a more sophisticated understanding of business processes and strategies. However, closer relationships also raise concerns that companies may exert undue influence over the company's assessment. There does not yet appear to be a satisfactory method to address such conflicts, with some ROs choosing not to engage directly to avoid potential conflicts.

Best Practices / Innovative Approaches	Organisations
External verification accorded a weighting with assessment questionnaire.	Several (e.g. SAM Research)
Externally verified information is highlighted within ratings report	Several (e.g. CoreRatings)
Interviews with company executives form a key element of company assessment	Innovest
Dedicated information gathering team, providing all data to analysts for assessment allowing analysts to focus on analysing companies (rather than collecting data)	Vigeo
Clear distinctions between ratings compiled with the involvement of companies given an 'Inside Rating', while those that do not offer information are assigned an 'Outside Rating' (an indication of the level of inclusive insight into a particular company)	Several (e.g. Oekom)
Inclusive source model that allows stakeholders to include themselves in information gathering processes	Covalence
Online tools that allow companies to review and input data about themselves facilitating transfer of information and reducing questionnaire fatigue.	Several (e.g. IRRC)

6.3 Quality of research, management and processes

Definition: the policies and systems in place to ensure that the research fulfils its stated goals.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Quality management Certification of the management system can be an important way of developing the credibility and quality of the research process.</p>	<ul style="list-style-type: none"> – Process clearly defined and documented. – Process includes several checks and balances, e.g. different team members cross-validating each other. – External verification of systems and processes. 	<ul style="list-style-type: none"> – All the research organisations analysed have developed extensive policies and guidelines documenting the research processes and internal checks. – Only one organisation has currently undertaken an external verification of its research process and results, though SiRi Group members have reviewed each others' processes. – SAM Research is the only organisation to employ a third party verifier of its results and processes (PriceWaterhouseCoopers).
<p>Verification of results Ensuring the quality and accuracy of published research is vital. A number of different solutions may be employed to address this.</p>	<ul style="list-style-type: none"> – External verification of results – Company feedback of information and results – Clear policy addressing potential undue influence from companies during the research and assessment process. 	<ul style="list-style-type: none"> – Verification of published research (i.e. the results of the analysis) is driven by internal systems and checks (although there is currently a lack of a dedicated internal audit function within ROs), clients and independent committees. – All ROs allow the opportunity for companies to review the information collected on them. This is done in three main ways: <ol style="list-style-type: none"> 1 Review all information prior to assessment. 2 Review of draft report (with assessment). 3 Review of report upon publication.
<p>Data handling and storage Ensuring that all key information gathered is managed effectively is a central element in ensuring quality research.</p>	<ul style="list-style-type: none"> – Quality systems/databases for storing and tracking of information. – Information stored both electronically and hard copy. – Quality contact management systems. 	<ul style="list-style-type: none"> – All research organisations assessed have formalised and centralised software systems to collect and store information on companies including contact management databases.

Clearly there is a delicate balance here between keeping commercially sensitive elements of the research process confidential, while also ensuring that the methodology as a whole is robust.

Insight and Future Developments

Need to seek certification of research process. While none of the research organisations analysed currently undertake external certification to recognised standards (and only one organisation has verified its processes and results), the debate of whether to certify is likely to intensify, in particular given the EVQS requirement to undertake independent audits for organisations subscribing to the standard.

This issue is particularly pertinent for those research organisations that plan to use, or are currently using, more sophisticated assessment techniques that link sustainability issues to investment value drivers. Clearly there is a delicate balance here between keeping commercially sensitive elements of the research process confidential, while also ensuring that the methodology as a whole is robust (and is seen to be robust) in applying stated research goals and processes effectively and consistently. Nonetheless ROs can agree with verifiers that certain elements of the research process need not be detailed, but can still verify that the models and processes exist and do what they set out to do, without revealing the intrinsic elements of the models. The costs involved in such external audits – and who pays – is still an open issue.

Best Practice Organisations

Centre Info
Oekom
SAM Research

Best Practices / Innovative Approaches	Organisations
External audit of research process offered to clients.	Several (e.g. EIRiS)
Internal peer review to assess compliance with research process.	SiRi Group
Third party verification of results and process.	SAM Research
Two step report review process with companies (review of draft and review of report with integrated feedback).	Oekom

Low pressure to standardise verification of results. While third party verification of results may become a more significant issue in the future, the ability of companies to review the information being gathered about them is already a key element in ensuring the quality of research. As some research organisations begin to utilise more sophisticated and financially driven forms of assessment and ratings, they may wish to share only the information gathered on a company prior to assessment in order to avoid companies unduly influencing the rating results.

Increasing demands on data handling. In addition to the centralised software systems in place within ROs, contact databases are also increasingly significant because of the growing importance of information derived from companies through direct engagement (email, phone, visits). Clearly linking information derived from such engagement to individual contacts is increasingly important, particularly where verification of results is required.

6.4 The research team

Definition: the size and experience of the research team.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Size of team The size of the team determines a limit to the number of companies that are being researched effectively.</p>	<ul style="list-style-type: none"> – Team size sufficient to analyse assessment universe effectively. – Manageable number of companies covered per analyst (relevant to experience). 	<ul style="list-style-type: none"> – Analyst teams vary greatly in size, ranging from 2 (Covalence) to 35 (Innovest) in full time employment, and from six to forty full time equivalents (FTEs). The average FTE team size within the sample was 13.5. – Analysing the number of companies assessed per analyst per year, the range varies from 25 to 100 (with the core ranging from 30–40) companies per year. The time spent per analyst varies, primarily due to the different methodologies and research techniques being employed. In addition, the variance in these figures is accounted for by differences in time spent: <ul style="list-style-type: none"> – researching companies. – conducting assessments. – undertaking continuous monitoring. – carrying out research and development. – carrying out administration.
<p>Experience of team The diversity and depth in experience of the research team is a core element in generating quality research.</p>	<ul style="list-style-type: none"> – Overall reputation of team. – Cultural diversity in line with covered universe. – Mix of different backgrounds, including relevant research experience, industry experience, financial backgrounds, academic qualification, nationality. – Organisation has the right people and know-how to assess materiality. 	<ul style="list-style-type: none"> – The level of experience varies significantly in different ROs. In an average team of 13.5 FTEs you would expect: <ul style="list-style-type: none"> 5 Nationalities. 9 Academic degree/qualifications (MSc/MA equivalent). 1.7 Financial degree/qualifications (CFA equivalent). 2.2 Analysts with large cap experience (this result is skewed by one organisation with eight analysts with large cap experience). 7 Analysts with previous experience in company assessment. – Eight organisations have none or only one analyst with relevant financial or large cap experience.

Research organisations display a wide range in the number of companies covered per analyst.

Best Practice Organisations	
None	While the overall strength of a research team depends on a wide variety of criteria beyond what we have considered here (e.g. relationship building, management quality, etc.), DSR, Innovest and Vigeo score most highly against the criteria laid out above. However, even these do not, in our view, represent clear examples of best practice.

Best Practices / Innovative Approaches	Organisations
Highest percentage of analysts (full time staff) with financial qualifications: 30%	Several (e.g. DSR)
Highest percentage of analysts (full time staff) with large cap experience: 41%	SAM Research

Insight and Future Developments

While the assessment of the quality of the research team is ultimately subjective (as the criteria used are at best proxies for underlying skills and competency), a number of issues should still be considered:

High variance in the number of companies being assessed per analyst. The level of coverage should be determined by the size of the team and average time needed to undertake an effective assessment. ROs display a wide range in the number of companies covered per analyst.

Lack of financial and business experience within teams. As the sustainability agenda continues to expand, diversity of experience becomes crucial in understanding the increasing range of issues SRI research organisations need to assess. As more research organisations attempt to introduce mainstream elements into their methodologies by including financial business models and assessing issues and impacts against investment value drivers (coupled with increasing engagement with clients' financial analysts), a greater understanding of financial concepts and techniques will be required. Currently the proportion of analysts with financial experience within research teams is very low.

As research organisations continue to focus on sector specific issues and risks, the need for more in-depth understanding of how business operates in different sectors will be crucial. Analysts with experience in large cap companies will be of particular importance. One of the key issues companies have raised with SRI analysis is the lack of understanding of their unique business issues and impacts (see chapter 7). Currently the proportion of analysts with business experience within research teams is also low.

6.5 Company coverage and client service quality

Definition: universe of organisations assessed by organisation, and range and quality of services provided to clients (investors and companies).

Sub-Criteria	Best Practice Elements	Current Practice
<p>Coverage A comprehensive level of coverage is required in order to provide clients with a range of investable universes.</p>	<ul style="list-style-type: none"> – Focus on investable universe of companies in line with business strategy and geographical scope. – Inclusion of large/medium/small cap company characteristics. 	<ul style="list-style-type: none"> – In-house coverage varies greatly within the ROs, ranging from ~100 to >1,500 companies covered. Organisations with lower coverage universes (SiRi Company members) have been able to extend their coverage through partnerships. – A key issue with regard to coverage relates to the quality and size of the research team (see section 6.4). – In general, the level of coverage is primarily focused on large cap companies. While the level of coverage for small/mid cap companies that are assessed varies extensively within ROs, the levels are significantly lower than for large caps.
<p>Investor services Clients require a broad range of services.</p>	<ul style="list-style-type: none"> – Broad range of services including 'a la carte' portfolio screening, monitoring services, online resources and results. – Services cater to clients needs, including tailored research. – Service offerings in line with resource base. 	<ul style="list-style-type: none"> – ROs provide a wide range of standard and customised services to investors. These include (number of organisations offering): <ul style="list-style-type: none"> 4 Indices 12 Ratings 11 Screening of companies 13 Profiles 12 Portfolio screening 10 Sector/Issue reports 5 Country reports – Additional services being offered include: corporate governance reports/ratings, SRI strategy consulting, sector benchmarks, scenario planning, proxy voting, criteria development services, engagement services and client training and consulting.
<p>Direct access to analysts Clients require tools that allow them to access information effectively, and receive clarification of data and results.</p>	<ul style="list-style-type: none"> – Clients have direct access to analysts for clarification purposes (including 'hotlines'). – Online tools that allow clients access to results, information and reports. – Service written into client contracts. 	<ul style="list-style-type: none"> – Currently eleven ROs provide online tools to clients that allow them to download reports. In addition, all ROs offer direct access to an analyst for clarification of research and results. Some of these systems are more formalised and include: <ul style="list-style-type: none"> – Client services teams. – 'Hotlines' to Heads of Research. – Contractual agreements with regard to access to analysts.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Company services Providing services to companies may raise potential conflict-of-interest situations.</p>	<ul style="list-style-type: none"> – Policies in place to address potential conflict of interest from company services, which are publicly stated. 	<ul style="list-style-type: none"> – Offering services to companies raises the issue of potential conflicts of interest, in particular with respect to solicited ratings, assessments and consulting. Four ROs have policies of not providing services to companies. For organisations offering services, a range of approaches have been adopted to address potential conflicts: <ul style="list-style-type: none"> – No services to companies within assessment universe – No services to listed companies – Suspension of independent rating in the case of solicited rating – Use of different methodology and research process for companies – Company assessments, but no consultancy.
<p>Monitoring Monitoring and notification of sudden events are a key element in updating clients and results.</p>	<ul style="list-style-type: none"> – Systems in place to monitor events and emerging issues effectively. – Range of sources used for monitoring (e.g. beyond media sources only) – Timely notification of clients to sudden events, using a range of tools, (e.g. news updates, press releases). 	<ul style="list-style-type: none"> – All ROs have systems in place to monitor and update clients on new developments. Monitoring is primarily focused on media wires such as Lexis/Nexis and Factiva. – These processes mainly begin with the analyst responsible for a sector/issue – Arising issues are discussed between the Head of Research and analysts to determine if there is a potential effect on ratings/report. – Clients are informed, primarily by email, usually within two weeks of the event (although in some ROs, this process is not formalised).
<p>Report quality</p>	<ul style="list-style-type: none"> – User-friendliness of reports – Results aggregated in rating form – Research provide actionable results – Executive summary of results. 	<p>Several of the ROs' reports proved to be unwieldy and overly text heavy. Some reports lacked executive summary information and highlights, user guides, contents pages, and information about how ratings are derived or should be used.</p>

Coverage of the small/mid cap market segment, as well as the Asian, Latin American and African markets, is as yet limited.

Insight and Future Developments

Coverage currently limited to major markets and large caps. Between the different research organisations, the level of coverage is extensive, either individually (Innovest, IRRIC) or through research groups and partners (EIRiS, SiRi Company). However, coverage is still primarily focused on large cap European and North American companies. Coverage of the small/mid cap market segment, as well as the Asian, Latin American and African markets, is as yet limited, though can be expected to increase (e.g. EIRiS's partnership with Good Bankers in Japan).

Pressure for increasingly sophisticated investor services. As the sustainability agenda continues to expand, and the number of information sources and volume increases, the demand from clients for more timely (even real time) results and ratings is likely to increase.

Company services present potential conflicts of interest. While the potential for conflict of interest exists in providing services to companies, many ROs still provide services, although with specific conditions to ensure independence. In order to maximise transparency, ROs should make their position on such conflicts publicly available with clear guidelines on how such conflicts are addressed.

Need for more regular and advanced monitoring techniques. Currently the most common tool for monitoring is through media updates. However, some stakeholder voices are not well represented within the mainstream media, in particular NGOs in emerging economies. Increasingly innovative monitoring systems will be required therefore to address these communities better and to identify current and emerging issues from a range of stakeholders and sources, in a timely and efficient manner.

Best Practice Organisations

None

All of the ROs reviewed provided reasonable coverage of the diverse range of products and services available on the market and there were no clear leaders. Furthermore, choosing best practice organisations on the basis of the criteria outlined above is problematic, primarily because service offerings are heavily dependent on the research organisation's core client base (e.g. screening profiles for ethical investors versus research linked to investment value drivers).

Best Practices / Innovative Approaches

Organisations

Coverage of 60 distinct sectors

SAM Research

Extended network of partners ensuring global coverage with country expertise

SiRi Company
EIRiS and partners

Two week update to clients on issues related to companies within assessment universe

KLD

Move to 'real time' through regular frequent update of database / results

EIRiS

Yearly client review of methodology and service provision.

Several
(e.g. CoreRatings)

Need for more regular and frequent client updates. Clients are primarily updated on key issues and changes of ratings and results via email. However, additional platforms are also likely to be developed, including updates within the ROs' online tool, press releases for major events, and updates to companies affected. In addition, frequent and regular client updates are more useful than sporadic updates for emerging issues and developments.

Need for more accessible and user-friendly report and rating design. As the scope of research (and hence report length) grows, the importance of providing data in an accessible, user-friendly format will also grow. Clear guidance on how research should be used, and the provision of short summary reports, should become standard practice. The ability for clients to find the information they need quickly should become a key consideration in designing reports.

6.6 Transparency and governance

Definition: the level of openness around an organisation's activities and the quality and coverage of policies that govern these activities.

Sub-Criteria	Best Practice Elements	Current Practice
<p>Ownership of company Public disclosure of company ownership displays good corporate governance, in particular for identifying potential conflicts of interest.</p>	<ul style="list-style-type: none"> – Transparent institutional set-up, including shareholders and board composition. 	<ul style="list-style-type: none"> – Two-thirds of the ROs assessed provided public information of their ownership structure and shareholders, as well as board composition and description through their website. – The remaining organisations, bar one, provide this information upon request.
<p>Publication of methodology and results A high degree of transparency is beneficial. However, the trade-off must also be acknowledged between total transparency and commercially sensitive information.</p>	<ul style="list-style-type: none"> – Disclosure of rating and research methodologies used and major results. 	<ul style="list-style-type: none"> – All ROs present partial descriptions of their methodologies, assessment criteria, and description of the assessment model. – Higher levels of transparency are provided to clients.
<p>External alignment Advisory committees can be an important element of good practice in corporate governance, especially if the board does not include independent members.</p>	<ul style="list-style-type: none"> – Commitment and role of advisory board or external review clearly documented. – Open dialogue with, and feedback to, stakeholders and companies assessed. 	<ul style="list-style-type: none"> – Seven of the 15 ROs have a formalised advisory committee in place comprising independent experts. Several also have formal interaction with the board. These committees play a range of different roles: <ul style="list-style-type: none"> – Guidance for methodology development and criteria selection. – Research evaluation. – Assignment of ratings (rating panel). – Identification of emerging issues.
<p>Conflicts of interest</p>	<ul style="list-style-type: none"> – No major conflicts of interest between research/rating and consultancy, asset management, shareholders, solicited research. 	<ul style="list-style-type: none"> – Some ROs have minority shareholdings in companies that are also being assessed. (Also see section 6.5).

While committees are not a prerequisite for ROs, they can be an important element of good governance.

Best Practice Organisations
Ethibel SAM Research Vigeo

Insight and Future Developments

Greater transparency around RO ownership. Ongoing professionalisation of ROs is likely to increase pressure for best practice in regard to transparency and governance. Increasingly ROs will be expected to communicate clearly their ownership structure and highlight majority shareholders, as well as provide details on board composition with summaries highlighting the degree of independence – and attaching an abbreviated CV of the board member.

Best Practices / Innovative Approaches	Organisations
Full disclosure of shareholders as a way of proactively addressing potential conflicts of interest	Vigeo
High level disclosure with regard to methodology, rationale, criteria, weightings and sample reports.	SAM Research
Scientific Advisory Board that advises and controls research methodology. Committee is used in a systematic fashion and includes joint meetings with the board two times a year.	Oekom

Pressure for transparency likely to conflict with pursuit of competitive advantage. Many of the ROs that we reviewed subscribe to the principle that companies which they research should be increasingly transparent and accountable for their impacts. This is a principle that many have also taken to heart in their own operations. However, as some ROs introduce more mainstream elements into their assessment models (more of a 'black box') the need to protect this source of competitive advantage is likely to conflict with the desire to be fully transparent.

Advisory committees can assist in good governance. Advisory committees can provide significant insight in terms of methodology development, criteria selection, identification of emerging issues, and assessment of research processes. The identification of emerging issues may also be done by informal 'rolling' groups of stakeholders, identified for their expertise in certain issues. While committees are not a prerequisite for ROs, they can be an important element of good governance, especially if the board does not include independent members. Advisory committees can also be effective if they are formally integrated into the organisation, such as through regular meetings with the board. Clarity about the committee's role should be highlighted within the ROs' publicly available information.

6.7 Case Studies

A key feature of the approach used by sell-side brokers is their ability to analyse issues with respect to their impact on investment value.

Sell-side brokers

A recent, and potentially very influential, player to enter the SRI community is the sell-side broker. Generally speaking, the SRI research activities of brokers are still at an early stage in their development, with few dedicated teams and limited product offerings. However, a range of factors have the potential to contribute to increasing competitive pressure on SRI research organisations, particularly those introducing 'second generation' type research products. These factors include their:

- access to financial analysts.
- ability to obtain 'airtime' with companies and investors.
- ability to provide research to clients at low cost in the form of supplementary research as part of core service delivery.

Yet very few brokers have developed their services with the aim of competing directly with specialist SRI research organisations. SRI research activities are very much client driven (i.e. the research is generally 'reactive' in nature and focuses on client requested companies, not a broad coverage of a defined universe). Brokers such as Dresdner Kleinwort Wasserstein, HSBC, WestLB and UBS have produced issue reports (e.g. on climate change, obesity and asbestos) and sector analysis reports that are aimed at providing investment intelligence.

A key feature of the approach used by sell-side brokers is their ability to analyse issues with respect to their impact on investment value. Their access to mainstream financial analysts provides them with a wider perspective on financial and strategic issues and ensures that their research methodologies are clearly linked to underlying investment value drivers as well as being sensitive to sector specific criteria.

A key issue for sell-side brokers, however, concerns the transparency and governance of their activities. Research methodologies are currently considered to be commercially confidential with verification of research results limited to client review. Furthermore, such research activity is often subject to potential major conflicts of interest concerning the independence of such research when it is coupled with the selling of equity.

The Voluntary Quality Standard for Corporate Sustainability and Responsibility Research (EVQS)

November 2003 saw the release of the pilot version of the Voluntary Quality Standard for Corporate Sustainability and Responsibility Research (EVQS). Drawn up by a number of specialist SRI research organisations, the standard is intended to help improve the quality of management systems, transparency and assurance processes, and hence form a basis for further verification procedures of the research processes of ROs.

The standard sets out a number of principles, which address several aspects of the six core criteria set out above, and to which signatories commit, and while it is currently European focused, efforts to achieve full internationalisation of the standard are expected once it has been developed further. (For further information see www.csrr-qs.org).

7.0 The Company Perspective

In order to gain an additional perspective on the quality of SRI research, we asked nine companies for their impressions of the methodologies being used to assess them, the way information was being gathered, and which research organisations were most effective in trying to identify their material issues and impacts. This also raised some issues for companies and their engagement with SRI research organisations.

How do companies identify their material issues and what are they? Are links to value creation being made?

Material sustainability issues are currently identified through internal ad hoc processes, but supplemented by media monitoring which was seen as a useful early warning system for issue identification.

Both internal (cross functional) and external (stakeholders) engagement was seen as the most strategic way of identifying key issues. However, the link between these issues and materiality was at best anecdotal, and at worst unproven. Similarly, while some links to investment value drivers such as reputation and licence to operate have been made, these were mainly qualitative, with little connection to strategic and financial modelling.

Some of the current and emerging material sustainability issues that were identified by companies in three key industries included:

- **Automotive**
Safety requirements, recycling and take-back requirements, CO₂ emissions, low emission technologies.
- **Oil and Gas**
Access to land for exploration, renewables, human rights, oil spills.
- **Pharmaceuticals**
GMOs, marketing ethics and pricing, patent rights, environmental fates and effects of compounds.

How do companies feel about SRI research organisations?

Research methodology

One comment often raised by companies is that many SRI research organisations do not understand their businesses (in terms of how they operate) and that the methodologies are not focusing on key company and sector specific issues. Consequently, research organisations that demonstrated good understanding of their business and sector were most respected.

Companies argued forcefully that those ROs that use weighted elements in a generic methodology to address sector specific issues fail to address the unique nature of specific issues in different sectors effectively (e.g. activating a criterion for product safety may not highlight the unique elements of bio-safety within the pharmaceutical industry).

Respondents felt that in order to maximise the effectiveness of their approach, analysts should familiarise themselves with the company before engaging. The desire for a more balanced and tailored approach to sector specific methodologies was also highlighted. In addition, it was felt that while environmental and social issues were well balanced, socio-economic considerations were still undeveloped.

It was striking how few companies had developed rigorous processes to establish the potential materiality of social and environmental issues.

Information gathering

Respondents felt that the most effective form of information gathering from them was through an online tool where analysts had filled in all publicly available information beforehand.

Additionally, companies felt that direct engagement through phone or visits was desirable as it gave them an opportunity to give analysts a clearer picture of the business. Finally, the ability to review final drafts of results was also seen as particularly useful.

With regard to information being gathered, it was felt that clarity should be given to the different sources being used in compiling profiles.

Are companies being proactive in engaging and informing ROs?

SRI analysts are faced with growing complexity in the sustainability agenda as well as an increasing range of issues. Companies are often well placed to help analysts negotiate this complexity.

However, most companies have not been strategic in their engagement with the SRI community. While some companies send out publicly available reports through mailing lists and occasionally organise analyst briefings, few companies have a defined engagement strategy for the SRI community.

Recommendations for companies

Engage with the SRI community

The need for companies to engage and inform the SRI community about business operations and impacts proactively is growing. Organising SRI analyst briefings, providing SRI relevant information updates, and issuing CSR information updates within financial releases can all help in improving levels of communication between companies and SRI analysts.

Develop internal networks

As more SRI methodologies identify and assess how sustainability issues impact on a company's investment value, the need to develop internal corporate networks for information collection and dissemination will also increase. To date RO methodologies have focused primarily on issues and trends that are 'owned' within CSR departments. New approaches, however, attempt to assess the materiality of sustainability issues on value creation. This will require information found outside the CSR department requiring stronger links to investor relations and strategy risk management.

Identify and focus on the material issues

While this research was limited to only nine companies, it was striking how few companies had developed rigorous processes to establish the potential materiality of social and environmental issues. This is a task that many large companies operating in the UK may be required to undertake,¹³ but is in any case something that many companies should want to undertake in order to manage social and environmental risk effectively. In addition, increasing interest from SRI ROs and investors in the potential materiality of social and environmental issues is also likely to pressure companies to demonstrate that they understand these issues, and have effective processes in place to manage those that are – or have the potential to become – financially material.

8.0 Conclusions and Recommendations

Many research organisations will have to fundamentally review many aspects of their research methodology and approach.

The principal aim of this report has been to identify what constitutes best practice within the research processes of specialised SRI research organisations, and to analyse where the state of play stands with regard to current practices.

The report's focus on the issue of materiality has been developed in light of the gradual integration of sustainability issues into mainstream investment decisions. If this process continues, we can expect the demand for research methodologies that identify and assess material sustainability issues to increase as well.

Our research suggests that in order to meet this challenge, many research organisations will have to fundamentally review many aspects of their research methodology and approach. Based on the six core criteria, we reached the following conclusions in regard to the current quality of SRI research methodologies.

Research methodology

Best Practice organisations
CoreRatings, Innovest, SAM Research

Only three ROs explicitly link sustainability strengths, weaknesses and risks to investment value drivers. The majority still focus on negative and best-in-class screening models which, although serving current niche ethical investors well, do not meet the needs of more mainstream investors. Several of these, however, are also reviewing whether and how to develop 'second generation'¹⁴ research methodologies that include a greater focus on material sustainability issues.

There is relatively little sector specificity afforded by current research methodologies. For many, this involves tailoring a generic methodology to suit a particular industry sector, but as the sustainability agenda continues to expand the need to tailor or – more likely – build new methodologies to suit particular industry sectors is likely to grow. Most ROs have developed robust review processes that involve external stakeholders and the engagement of advisory groups and boards. However, for many ROs the review process is still very fresh with several having only undertaken a single methodology review cycle.

Recommendations

- Develop methodologies that identify material issues and assess their potential impact on investment value drivers.
- Develop criteria and indicators that assess sector specific issues and impacts.
- Undertake regular and inclusive reviews of the general methodology, testing proposed updates on clients.

Quality of information sources used

Best Practice organisations
Innovest, IRRRC, SAM Research

Companies still represent by far the most important source of information for ROs with many ROs increasingly relying on personal contact and engagement with company representatives for their information and insight.

External verification of data is still a significant challenge for ROs who often rely on the media to cross-check and validate the veracity of data. In addition, wider sources of information of a financial and strategic nature are still often unavailable to many of the organisations, reducing their ability to identify issues related to investment value creation.

For many companies (see chapter 7) a pressing issue was of 'questionnaire fatigue'. Most of the ROs reviewed recognise and are actively addressing this issue, although further development of online tools, information networks and engagement strategies is likely to be necessary.

Recommendations

- Use wider sources of information of a financial/strategic nature to connect sustainability issues to investment value drivers.
- Continue to improve the systems used to gather information from companies, including the introduction of online tools.

Of the ROs reviewed, there was an enormous variety in the size and experience of the research teams.

Quality of research, management and processes

Best Practice organisations:
Centre Info, Oekom, SAM Research

Most ROs have robust research management processes in place. All the organisations provide companies with the opportunity to review the research on them (though in different ways), and all claim to have effective data handling and storage capabilities.

However, in spite of this, of all the 15 organisations reviewed, only one (SAM Research) has had its research process independently verified. As the issue of transparency continues to gain in importance, other ROs should also consider additional forms of independent assurance, including external verification and/or review by independent advisory committees (as Oekom currently does).

Recommendations

- Investigate the use of external verification of research processes and results.

Research team

Best Practice organisations:
None selected¹⁵

While a whole variety of factors is important in assessing the quality of research teams, a key part is dependent on the size and experience of the team. Of the ROs reviewed, there was an enormous variety in these parameters with teams ranging in size from six to 40 full-time equivalents.

There was also significant variation in the levels and types of experience of the analysts with particularly low levels of experience in financial qualifications and in large cap experience. Furthermore, there was also huge variation in the numbers of companies analysed per year by each analyst, with figures ranging from 25 to 100 companies per year.¹⁶

Recommendations

- Ensure that research team capacity is sufficient to cover the stated assessment universe.
- Increase the level of financial and business experience among analysts.

Company coverage and client service quality

Best Practice organisations:
None selected¹⁷

Clearly the level of company coverage is closely linked to the size (and experience) of the research team. Larger teams (or networks of teams as in the case of SiRi Company) are able to research larger universes. Given the variability in the size of research teams, the range of coverage (from 100 companies to over 1,500) is not surprising.

Limitations in terms of the size of the research universe is compounded by a focus primarily on large cap companies based in the developed world. Very few ROs provide any significant coverage of small and mid cap companies or of companies operating in emerging economies.

While the range of client services appears to be reasonably good, some outstanding issues with regard to quality still remain. These include questions of potential conflicts of interest between consulting services and ratings, the quality of monitoring services (e.g. frequency) and the accessibility of research reports.

Recommendations

- Increase coverage of small and mid cap companies, and widen geographic scope.
- Develop and communicate policies to address potential conflicts of interest with regard to company services.
- Introduce more systematic monitoring processes, utilising a wider information base.
- Increase user friendliness of reports and ratings.

Companies are often no better able to identify the material sustainability issues facing them than are SRI research organisations.

Transparency and governance

Best Practice organisations:
Ethibel, SAM Research, Vigeo

Of the 15 organisations reviewed, two-thirds have transparent governance practices in place with many providing details of individual board members and information on the role and composition of advisory committees. Far fewer have much clarity in terms of the specific components of their research methodologies – though many claim to be more transparent with key clients.

An important issue, however, for several organisations is the inherent conflict of interest in their ownership with several having minority shareholdings held by companies that are also being assessed by the organisation thus compromising their 'independent' status.

Recommendations

- Increase transparency with regard to governance and ownership structures.
- Communicate systems and policies in place to address potential conflicts of interest.

The company perspective

Nine companies were also asked to fill in a questionnaire that explored company impressions on the quality of SRI ROs.

Among the principal findings were that:

- Companies are often no better able to identify the material sustainability issues facing them than are SRI ROs. While several issues in different industry sectors were highlighted, these were based almost exclusively on anecdotal and qualitative information.
- SRI ROs often fail to understand the company's business (in terms of how they operate) and this is reflected in a lack of sector specificity of questionnaires. Most companies appreciate the opportunity to engage directly with research analysts in order to improve the quality of information flow.
- Few companies had developed strategies for engaging with the SRI community other than sending published materials and press releases to key contacts.

Recommendations

- Introduce more systematic processes for identifying material sustainability issues and qualify and quantify their potential impacts on investment value creation.
- Actively engage with SRI ROs, including the systematic provision of SRI specific information.
- Develop internal networks for information gathering, in particular in relation to financial and strategic issues.

9.0 A Final Word: future challenges for SRI research organisations

We believe that pension funds, foundations and private investors will in the next years need to finance the transition of some of the leading SRI research organisations to a more sustainable 'second generation' business model.

Besides improving their research methodologies to make them more relevant to the assessment of material impacts and value drivers (the topic of this report), SRI research organisations are also facing a series of additional challenges including:

- the erosion in the price investors and asset managers are willing to pay for research.
- increasing competition from new emerging players, e.g. sell-side brokers.
- investor expectations for a broad (possibly global) coverage of stocks and a wide range of tailored services.
- company expectations for accurate and detailed assessments, frequent updates, excellent feedback and a high degree of interaction with analysts.
- companies adopting a more discriminating approach in providing information only to the best SRI research organisations contributing to investment 'leverage'
- companies becoming increasingly unwilling and/or unable to provide information to individual research organisations, but provide only standardised public information.

Increasing competition levels have been accompanied by a strong erosion in the price investors and asset managers are willing to pay for research services, a general trend in the investment world. As a consequence, some of the specialised SRI research houses are today struggling for survival. Many more have experienced lower levels of profitability and are aware that their present business model is not sustainable over the long term. Indeed, a shake-out in the industry is all but inevitable.

The SRI research organisations are trying to counter this situation by using different strategies to redefine their business model and reduce costs by using synergies and efficiency gains, such as:

- joining forces in networks (e.g. SiRi Company).
- providing solicited rating services to companies (e.g. Vigeo, CoreRatings).
- providing consulting services to companies.
- linking research with an own asset management company (e.g. SAM).
- providing services for investment products remunerated on a performance fee basis (e.g. Innovest).
- providing more sophisticated services to investors at higher margins than screening.
- merging with a mainstream asset manager (ABF/Credit Lyonnais-IDEAM).

Many of these strategies are promising. Some of them, though, entail a loss of independence (e.g. joining forces with asset managers) or a questionable conflict of interest (providing consulting or solicited rating services to companies), the latter a big reputational risk for institutions which have independence as their major competitive asset.

It is a great challenge to find a sustainable business model (and the investors prepared to finance it) for the specialised SRI research organisation of the future. We believe that pension funds, foundations and private investors with a strong interest in specialised SRI research will in the next years need to finance the transition of some of the leading SRI research organisations to a more sustainable 'second generation' business model.

To be truly sustainable and independent, we believe that these new organisations will need to have:

- a strong initial capital base in order to invest in people, methodologies and tools
- the capability of integrating long-term social, ethical, environmental know-how into financial and investment decision processes, and focus their research on material issues for investment.
- the capability of investigating in depth the business and investment case for sustainability, not only for large cap companies but also for small and mid-cap listed and private companies.
- in-depth strategic know-how for certain sectors and industries.
- clear and transparent governance, and avoidance of major conflicts of interest damaging their reputation.
- a truly independent profile.
- a financially sustainable business model.

Proclaiming the demise of specialised SRI research organisations, while premature, is not a scenario that would strike many as totally improbable. There is clearly an important role to be played by independent SRI research organisations in the future of SRI and its mainstreaming into the investment community.

Nevertheless, many observers warn that if the industry does not succeed in a transition to a 'second generation' model it is likely to lose its relevance in the eyes of all but a small niche of ethical investors. Such an outcome may not signal the end of research into the sustainability performance of companies, but the ongoing development of this agenda would undoubtedly be significantly impoverished as a result.

Endnotes

- ⁰¹ CSR Europe, Deloitte & Euronext (2003) *Investing in Responsible Business*, CSR Europe. According to this survey, company reports continue to be the main direct source of information, specialist SRI research organisations ranking second and direct dialogue with companies third.
- ⁰² CSR Europe, Deloitte & Euronext (2003).
- ⁰³ Amongst others: Mistra, Miljöeko & SustainAbility (2001) *The Screening of Screening Companies*, Mistra; Arthur D. Little, Business in the Community & UK Social Investment Forum (2003) *Speaking the Same Language*, ADL; SustainAbility & The Centre for Business Performance (ICAEW) (1999) *A Responsible Investment? An Overview of the Socially Responsible Investment Community*, SustainAbility; Timo van den Brink (2002) *Screening and Rating Sustainability*, Triple P Performance Center.
- ⁰⁴ Although the responses to the questionnaire were interrogated through in-depth interviews, the data has nonetheless not been independently verified.
- ⁰⁵ Copies of both questionnaires used in interviewing SRI research organisations as well as companies can be downloaded at www.sustainability.com.
- ⁰⁶ SustainAbility & UNEP (2002) *Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reports*, SustainAbility.
- ⁰⁷ Based on the American Institute of CPAs (AICPA) Statement on Auditing Standards (SAS) No. 47, *Audit Risk and Materiality in Conducting an Audit*.
- ⁰⁸ AA1000 Standard, AccountAbility www.accountability.org.uk/aa1000
- ⁰⁹ See for example the OFR (2003) *Operating and Financial Review Working Group on Materiality*; Simon Zadek (2003) *Redefining Materiality*, AccountAbility; *Global Reporting Initiative Position Statement on Materiality* www.globalreporting.org
- ¹⁰ SustainAbility & The Centre for Business Performance (1999).
- ¹¹ The process involved each Selection Committee member assigning ten votes to ten organisations from the initial universe. All organisations receiving a vote from the Selection Committee were then included into the shortlist for further analysis. Prior to this, committee members were asked to state any potential conflicts of interest and abstain from voting in those cases.
- ¹² SRI WorldGroup is an Internet-based business that serves the information needs of socially responsible investors.
- ¹³ The 2003 UK Operating and Financial Review Working Group on Materiality has proposed a set of criteria for assessing processes used to identify material issues. This includes factors such as transparency, internal and external consultation, and comparability.
- ¹⁴ We thank Ivo Knoepfel of onValues for this term.
- ¹⁵ Please see section 6.4 for the reasoning behind this selection.
- ¹⁶ Given this enormous variability, we suggest that further work be done looking to verify these figures and determine reasons for this variability.
- ¹⁷ Please see section 6.6 for the reasoning behind non-selection.

SustainAbility

20-22 Bedford Row

London WC1R 4EB

United Kingdom

T +44 (0)20 7269 6900

F +44 (0)20 7269 6901

www.sustainability.com**Mistra**

Swedish Foundation for

Strategic Environmental Research

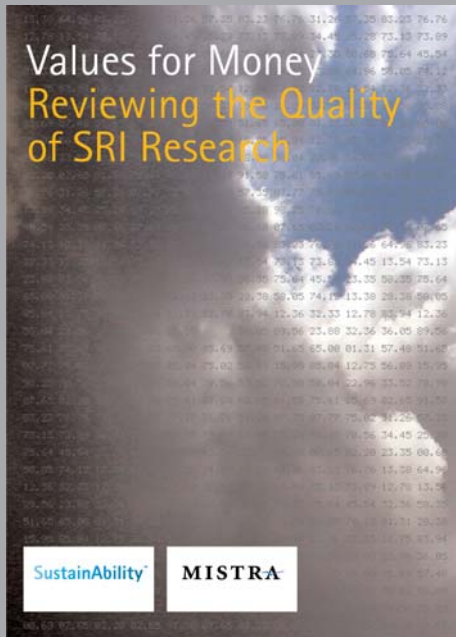
Gamla Brogatan 36-38

Stockholm SE-111 20

Sweden

T +46 8-791 1000

F +46 8-791 1029

www.mistra.org**Values for Money:
Reviewing the Quality
of SRI Research**

First Edition

ISBN 1-903168-09-0

© SustainAbility 2004.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, electrostatic, magnetic tape, photocopying, recording or otherwise, without permission in writing from the copyright holders.

Research and Writing

Seb Beloe, SustainAbility

Jan Scherer, SustainAbility

Ivo Knoepfel, onValues

Information Design

Rupert Bassett

07958 629290

Print

Calverts

+44 (0)20 7739 1474