



Maplecroft
Maplecroft House
Bath Road
Bradford on Avon
BA15 2PE
United Kingdom

T +44 (0) 1225 863 882
F +44 (0) 1225 864 950

<http://www.maplecroft.net>

Company report review

Kingfisher

Social Responsibility Report 2005 – 'Steps to
responsible growth'

Presented by: the Ethical Insight team at
Maplecroft

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Note

This review is based on information contained in the PDF download version of Kingfisher's [Social Responsibility Report 2005 Summary](#), as well as the company's [Social responsibility website](#). This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

1 Company background

Kingfisher is Europe's leading home improvement retail group and the third largest in the world. Kingfisher operates over 600 stores in ten countries in Europe and Asia. Over half of these are in the UK, under the brand name B&Q. Other brand names are Castorama (France, Italy, Poland), Brico Depot (Spain) and Koctas (Turkey). As Kingfisher's largest operating company, B&Q UK started its social responsibility programme in the early 1990s and has therefore made the most progress, particularly on chemicals, timber, diversity and relations with local communities. Its other businesses are now well established on the path to responsible growth.

Kingfisher has produced corporate responsibility reports on an annual basis (except in 2004), beginning in 2001 with the publication of a 'CSR plan'. The Social Responsibility Report 2005 is a 32-page summary document, designed to provide a short overview of progress on social and environmental issues with more detailed information available on the website. Kingfisher has done a good job of ensuring the summary report focuses on the most pertinent information, notably its social responsibility policy and management system, as well as the company's approach and key initiatives within the six environmental and social focus areas. At present, the website includes limited additional information and should be continually up-dated, with the most recent information highlighted, to make the most out of the company's chosen approach to reporting.

Of slight concern is the fact that the report was written by an external consultancy, potentially diminishing internal learning from the reporting process – in future, Kingfisher may wish to address directly how the report is being used as an education and management tool.

2 Reporting practices

2.1 Materiality

Kingfisher's report does not suggest any particular approach or criteria to define materiality. Nevertheless, the company has clearly identified six focus areas – three environmental and three social – considered most relevant to the business. These six focus areas, together with 12 related issues, form the basis of the company's social responsibility policy and management system, as well as the report structure. Apparently, internal and external stakeholders were consulted in the process of identifying focus areas and it is a pity that further details are not provided.

The focus areas themselves seem appropriate and it is particularly encouraging to see that product stewardship is included among them as this indicates a recognition of the need to integrate responsible behaviour into the core functions of the business. This is important in light of the use of potentially harmful chemicals and timber in Kingfisher products.

However, certain material issues are not identified within the scope of the social responsibility policy or management system. These include issues such as health and safety which Kingfisher says is already managed elsewhere in the business, but also employee terms and conditions of work, and the group's approach to bribery and corruption and public policy.

Overall, there could be a greater focus on risk, particularly country-specific risk in light of the geographically diverse nature of sourcing and operations. A more detailed analysis of materiality is also warranted. Questions that spring to mind relate to the potential impact of the focus areas on the company and its stakeholders, and the implications of this in terms of prioritising certain issues over others; the degree of control the company considers itself to have in ensuring positive outcomes; and the boundaries of responsibility it considers appropriate.

2.2 Transparency

Kingfisher is particularly transparent in the detailed presentation of its recently introduced social responsibility management system, 'Steps to responsible growth'. An excellent interactive version is available on Kingfisher's website, showing how operating companies score across 12 issues compared to the group average. A questionnaire used to monitor operating companies' performance across the 12 issues is also available to download.

The report has not yet achieved a balance of information across the group as a whole, particularly as B&Q UK, Kingfisher's largest operating company, started its social responsibility programme considerably earlier than the others. This is compounded by the fact that company-wide data related to the key performance areas will not be released until later in 2006. Kingfisher goes some way towards making up for the lack of information across the group as a whole by including in the report a series of case-studies with substantive information on the initiatives of different operating companies.

The report could be improved by a more direct focus on key challenges facing the industry and the business, and the company's experience and approach to dealing with them – breaches of its 'Code of conduct for factory working conditions', for example. Case-studies could also highlight more clearly challenges encountered and lessons learned. As previously indicated, certain sensitive issues also remain to be addressed, such as the company's position on bribery/corruption and political lobbying.

Finally, while the report provides evidence of engagement with external stakeholders (notably, Kingfisher has recently joined Forum for the Future; Kingfisher's Director of Social Responsibility, Ray Baker, also chairs the CSR committees for EuroCommerce and the British Retail Consortium), it does not adequately communicate their opinions and concerns. Kingfisher is currently developing an internal communication programme to increase employees awareness of social responsibility – it would also be of interest in future reports to reflect employees' views on the company's approach to sustainability issues.

2.3 Comparability

Unusually for a company engaged in sustainability reporting, Kingfisher makes no reference to the guidelines of the Global Reporting Initiative (GRI). It is a pity that the group has opted not to provide any information on its position vis-à-vis the GRI, particularly in view of the fact that revisions to the GRI are currently open to public consultation. Kingfisher is encouraged to consider reporting in accordance with the GRI which is the international standard for sustainability reporting, providing the best framework for inter-company comparisons on non-financial performance currently available.

Nevertheless, Kingfisher has produced a short but straightforward set of key performance indicators (KPIs) covering the six main focus areas contained in its social responsibility management system and policy. The metrics for these indicators have not yet been defined in many cases, nor has the actual data been released. It therefore remains to be seen whether such a discrete set of indicators is effective or needs further development.

In terms of targets, Kingfisher has set three levels of policy compliance for each issue ('minimum action', 'policy target' and 'leadership position') which should provide a good indication of how the company evaluates its own progress. Kingfisher can be commended for its commitment to establish time-bound short and medium term targets (one-year and five-year) for each operating company. It remains to be seen how specific and ambitious Kingfisher's targets will be. Most promisingly, Kingfisher has already said it will set a specific target on climate change during 2006, and is working with the CarbonNeutral company with a view to becoming carbon neutral in the future.

2.4 Assurance and verification

Kingfisher commissioned a specialist external organisation to provide independent assurance. To its credit, the company has opted for a more rigorous and extensive assurance process than many companies, conducted in accordance with the principles of the AA1000 standard and focusing both on the company's social responsibility strategy and report. Of particular note is that independent assurers were given open access to the executive committee and senior management at group level and interviewed 13 directors and senior managers, including the group chief executive – it is a pity that interviews/focus groups were not also conducted with other stakeholders. The credibility of the report is strengthened to some degree by the verification of a sample of data, information and documents (albeit those made available by Kingfisher) – the performance of operating companies and suppliers were not verified.

In future reports, Kingfisher might consider how to capture the views and concerns of external stakeholders, for example by establishing a multi-stakeholder report review committee. This feedback can be vital to the process of continuous improvement, and provides a means of communicating the company's activities to opinion formers (government and non-government organisations, academics etc.). The company should also consider including in the report its response, and any planned actions, to the comments and recommendations made by assurers/reviewers.

3 Management structure

Kingfisher makes the critical recognition that, 'real progress will only be made if the senior management team is committed to driving [social responsibility] forward'. This is evidenced by the appointment of a Director of Social Responsibility and the incorporation of non-financial issues onto the agenda of the Executive Committee. Importantly, senior representatives from operating companies around the world are also incorporated into the social responsibility management structure through a Steering Group.

In future reports, Kingfisher is also encouraged to disclose further details of the number and agenda of meetings relating to social responsibility, as well as how sustainability at the different areas and levels of the group is coordinated. In particular, it would be interesting to know to what extent responsibility for specific social and environmental issues has been assigned to line managers within relevant departments. Given the geographical diversity of the company's operations, and significant differences in operating companies' progress on responsibility issues, regional focus groups might also be worth considering.

Key management challenges of integrating sustainability into the business could also be discussed, for example how to share lessons learned across the business.

4 Certification

Kingfisher is included in the two main socially responsible investment indices – the FTSE4Good and Dow Jones Sustainability Indexes. As a member of Business in the Community, Kingfisher also participates in the annual Corporate Responsibility Index. Kingfisher is encouraged to disclose ratings' information in future reports to build credibility and allow inter-company comparison.

Kingfisher aspires for all operating companies to progress towards Forest Stewardship Council certification for all timber products. In the UK, around 75% of all product lines are FSC certified, and a small proportion of timber on certain product lines is also FSC certified in countries such as China, France and Poland.

5 Review of core issues

5.1 Product stewardship

5.1.1 Position

Kingfisher has adopted a commendable position regarding product stewardship, based on a commitment to actively research the environmental and social issues associated with the production, use and disposal of all of its products, and work with suppliers to find solutions and set standards. Kingfisher has produced sound policies on chemicals' management and timber sourcing (there is no indication as to whether policies are also being developed for other materials). The company should clarify, however, steps and commitments taken above and beyond those required by law.

5.1.2 Programmes

Kingfisher has committed itself to ensuring that all timber, timber-containing and paper products come from forests independently certified as well-managed or from recycled materials. The idea is that operating companies progress towards Forest Stewardship Council (FSC) certification which is considered a best practise standard.

With regards to chemicals, Kingfisher has committed itself to work with suppliers to substitute chemicals that are found to be of concern and discontinue products where the chemicals they contain pose significant risks. There is evidence of steps being taken to implement the policy. Notably, a guidance pack has been produced to help operating companies prepare product specifications for suppliers. Kingfisher could also consider establishing mechanisms for operating companies to learn from each other in how best to implement policies relating to product stewardship.

5.1.3 Performance

Kingfisher has identified three key performance indicators in the area of product stewardship which could be more specific and ambitious – the indicator on timber sourcing refers to 'well-managed forests' rather than the more demanding FSC standard; the indicator on chemicals is process rather than impact oriented; the indicator on paint does not specify a satisfactory level of VOC. Data for these indicators has not yet been released.

Nevertheless, the report provides some evidence of Kingfisher's achievements in implementing its chemicals management and timber sourcing policies, mainly in the form of case-studies. B&Q UK is by far the most advanced, with 75% of all timber product lines having achieved FSC certification and a 'DIY detox' initiative in place to manage chemicals. Good progress is clearly being made in other countries with regards timber certification. It would be interesting to know to what extent Kingfisher plans to introduce the same initiatives across all operating companies, and mechanisms in place to ensure that learning is shared.

5.2 Supply chain

5.2.1 Position

Kingfisher describes its supply chain as 'vast...stretching across the globe'. However, the report includes only the briefest overview of the structure of the supply chain which could be substantially developed. Apparently, around 10% of products are procured through Kingfisher sourcing offices in countries such as China, South Africa and India where companies often face significant risk of complicity in human rights abuses. In future reports, Kingfisher should identify and discuss the country specific risks and challenges in the supply chain.

Kingfisher has developed a clear position on expected standards in the supply chain through its 'Code of conduct for factory working conditions.' Kingfisher says this code is in line with International Labour Organisation conventions, but a more rigorous approach would offer some insight into how the company deals with challenges, such as restrictions on the right to freedom of association in China. To its credit, Kingfisher is unequivocal in its decision not to source from factories that breach any one of nine minimum requirements.

5.2.2 Programme

Kingfisher provides substantial evidence in its report of measures to implement its supplier code of conduct. Specifically, each Kingfisher operating company and sourcing office is required to develop an action plan to achieve compliance with the code. Importantly, this must include a system for auditing the performance of suppliers against the code and for following up compliance.

Kingfisher is also to be commended for its efforts to promote awareness among factory managers, as well as buyers and employees. (This is in contrast to many companies which neglect to consider the impact of the actions of their own buyers on suppliers.) Kingfisher has produced, for example, an information pack for factory managers which has been translated into Chinese and other languages. It has also piloted a series of supplier and buyer training workshops in China.

5.2.3 Performance

Kingfisher has identified two key performance indicators in this area, relating to factory audits and training workshops. These are good process-related indicators but impact-related indicators should also be identified.

In addition to a broad overview of management practices, future reports should focus more directly on the company's approach to particular issues of concern. Data relating to factory audits have not yet been released but will hopefully provide some insight into areas where improvements are needed and should be accompanied with corrective action plans. Care should also be taken to ensure that where data is presented, it is done so in a meaningful way – the report specifies that training workshops were attended by 70 factory managers and 30 employees respectively but these figures offer no real indication of their scale or impact.

A case-study of how factory assessments are carried out in Asia provides a good way of showing how management processes are working in practice, but again shows a need to focus more

6 Ethical Insight's comment

3 Star Rating: ★★

Reporting Practices

Materiality

Kingfisher identifies six appropriate environmental and social 'focus areas' which form the basis of its social responsibility policy and management system, as well as the report structure. However, certain material issues are omitted, including health and safety, employee terms and conditions of work, and the group's approach to bribery and corruption and public policy. Overall, a more detailed analysis of materiality is warranted, as well as a greater focus on risk, particularly country-specific risk given the geographically diverse nature of sourcing and operations.

Transparency

Kingfisher is particularly transparent in the detailed presentation of its recently introduced social responsibility management system, 'Steps to responsible growth'. Kingfisher is also encouraged to disclose as soon as possible details of how non-financial issues are incorporated into business risk assessment and governance processes currently under review, as well as company-wide data on the key performance indicators planned for release in 2006. A more direct focus on key challenges facing the industry, the business and the initiatives referred to in case-studies would also be of interest, particularly from the perspective of different stakeholders. The company's position on bribery/corruption and political lobbying needs also to be addressed.

Comparability

Kingfisher makes no reference to the guidelines of the Global Reporting Initiative (GRI) and is encouraged to do so. It has defined a limited number of key performance indicators but in the absence of metrics and data, it remains to be seen whether such a discrete set of indicators is effective or needs further development. Kingfisher can be commended for its commitment to establish time-bound short and medium term targets (one-year and five-year) for each operating company but again, it remains to be seen how specific and ambitious they will be. Most promisingly, Kingfisher has already said it will set a specific target on climate change during 2006.

Assurance and Verification

To its credit, Kingfisher has opted for a more rigorous and extensive assurance process than many companies, conducted in accordance with the principles of the AA1000 standard and focusing both on its social responsibility strategy and report. The access to senior management granted to assurers is of particular note. In future reports, Kingfisher might consider how to capture the views and concerns of external stakeholders, for example by establishing a multi-stakeholder report review committee. Kingfisher is also encouraged to include in the report its response, and any planned actions, to the comments and recommendations made by assurers/reviewers.

Review of Core Issues

Product stewardship: It is particularly encouraging to see product stewardship included among the focus areas, recognising the need to integrate responsible behaviour into the core functions of the business. Kingfisher has produced sound policies on chemicals' management and timber sourcing and could clarify steps and commitments taken above and beyond those required by law. The report provides evidence of Kingfisher's achievements in implementing its policies in these areas but targets and performance indicators could be more specific and ambitious – the indicator on timber sourcing refers to 'well-managed forests' rather than the more demanding FSC standard, for example.

Supply chain: In light of its long and geographically diverse supply chain, Kingfisher is encouraged to develop a supply chain map, identifying country specific risks and challenges. Commendably, Kingfisher has developed a clear position on expected standards in the supply chain and is unequivocal in its decision not to source from factories that breach any one of nine minimum requirements. A programme is in place to raise awareness – notably targeting both procurement staff and suppliers – and monitor compliance with the supplier code of conduct. Kingfisher is encouraged to include some impact-, in addition to the existing process-related indicators, and focus more directly on its approach to issues of concern highlighted through the audit process.

7 Appendices

7.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
 - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
 - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
 - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
 - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For a selection of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

7.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows:

- ABN Amro Sustainability Report 2003
- Alcan Corporate Sustainability Report 2004 and 2005
- Alcatel - Sustainable Development Report 2004
- Anglo American Report to Society 2004
- BAA Annual Report 2003/2004
- BAE Systems Corporate Responsibility Report 2003
- BBC Corporate Sustainability Report 2004
- BHP Billiton Sustainability Report 2005
- BP Sustainability Review 2004
- Cadbury Schweppes Corporate and Social Responsibility Report 2004
- Citigroup Citizenship Report Review 2004
- Coca-Cola's 2004 Citizenship Report
- Commerzbank Corporate Responsibility Report 2005
- Co-operative Group corporate responsibility report 2003
- Ford Sustainability Report 2004/05
- HSBC Corporate Social Responsibility Report 2004
- Hydro Corporate Social Responsibility Annual Report 2003
- Kingfisher Social Responsibility Report 2005
- Marks & Spencer Corporate Social Responsibility Report 2005
- Merck Corporate Responsibility Report 2005
- NEC Corporate Social Responsibility Report 2005
- Nike Corporate Responsibility Report 2004
- Rio Tinto 2004 Sustainable Development Review
- Royal Bank of Scotland's Corporate Responsibility Report 2004
- Royal Mail Corporate Responsibility Report 2004
- RWE Corporate Responsibility Report 2003
- Shell Foundation 'Enterprise solutions to poverty' Report 2005
- Standard Chartered 2004 Corporate Responsibility Report
- TPG annual report 2003
- TPG Corporate Sustainability Report 2004
- Unilever Social and Environmental Reports 2004
- Vodafone Corporate Social Responsibility Report 2003/04
- Volkswagen Sustainability Report 2005/06
- WestLB Sustainability Report 2005
- Westpac Stakeholder Impact Report 2004

7.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

info@maplecroft.com or + 44 (0)1225 863882.



Maplecroft
Maplecroft House
Bath Road
Bradford on Avon
BA15 2PE
United Kingdom

T +44 (0) 1225 863 882

F +44 (0) 1225 864 950

<http://www.maplecroft.net>