THE BODY SHOP APPROACH TO ETHICAL AUDITING

January 1998
INTRODUCTION

The Body Shop first committed itself to an active programme of integrated ethical auditing at the beginning of 1994\(^1\) (ie. combined environmental, social and animal protection auditing). This followed successful experience in implementing audit programmes for environmental protection and health and safety at work, and supplier screening programmes for animal protection. In the case of environmental audits, The Body Shop elected in 1991 to follow the European Union Eco-management and Audit Regulation\(^2\) as the most rigorous, comprehensive and rational framework available\(^3\). The company published three independently verified environmental statements in 1992, 1993 and 1994\(^4\). In each case the verifiers confirmed that the statements satisfied the requirements of the European regulation; this requires validation of data as well as the management systems and programmes for delivering environmental improvements.

The development of environmental auditing and management systems at The Body Shop has been described elsewhere\(^5\). Nevertheless, it is worthwhile placing the environmental programmes in their organisational and philosophical context because this is quite pertinent to the later development of social and ethical auditing.

Throughout the 1990s there has been increasing emphasis on the need for transparency and especially public disclosure of environmental impacts by industry\(^6\). In addition, the relevance of environmental management and auditing systems to wider issues of socially responsible business behaviour is now becoming understood. Thus in 1992, the United Nations Conference on Environment and Development was able to produce a document (Agenda 21) which made explicit the importance of environmental management, auditing and public disclosure of environmental impacts to the broader goal of sustainable development\(^7\). In preparation for the UNCED conference, Schmidheiny and others\(^8\) produced a quite radical prescription for altering business behaviour to take into full account the need to balance environmental conservation and economic development. This analysis has stimulated work in the Business Council for Sustainable Development and elsewhere on issues such as eco-efficiency and ecological tax reform\(^9\). It has produced some resonance in progressive business circles and in more forward-thinking national and international agencies\(^10, 11, 12\).

However, it is only recently that the business management implications of the wider agenda have become apparent. Thus, heads of corporations and business leaders still talk about sustainable development when they really mean environmental protection and the conservation of natural resources\(^13, 14\). Companies whose activities could hardly be less sustainable act as leading players in international fora promoting environmental management initiatives which are claimed to be compatible with unrestricted free trade and patently unsustainable consumption\(^15\). Even terms like eco-efficiency, life cycle assessment and eco-management are promoted as technical devices devoid of wider issues of global social responsibility and inter-generational equity\(^16\).

There is a need therefore, to pioneer management systems which are based on a wider perspective of how environmental protection and conservation relate to business obligations. If we are to avoid the kind of crisis foreseen by some and move towards a more genuinely ‘eco-centric’ approach to business, new techniques are needed. These techniques may borrow from existing management theory and practice, including techniques used in environmental, health and safety, or quality management and auditing. But business will need a broader and more holistic set of values together with systems for implementing those values if it is to make a genuine commitment to sustainable development. A paradigm shift is needed, complete with methodological underpinning. Integrated ethical auditing which takes into account social, animal welfare and environmental protection issues is one technique which may help.

This paper describes the detail behind The Body Shop’s approach to ethical accountability. The structure of The Body Shop’s business is outlined, together with the company’s ethical policies and how these are implemented and audited. Sections dealing with environmental protection, social issues and animal protection are presented and emphasis is given to the importance of auditing and disclosure of performance as the key to establishing stakeholder support.

The Scope of the Values Report 1997
In January 1996, The Body Shop published an integrated statement of its ethical performance which was called The Values Report 1995. Each component of the report had an element of independent verification in line with established best practice where this exists.

In the second Values Report 1997, we have attempted to refine our approach to ethical reporting by incorporating social, animal and environmental protection issues in a single volume. By dedicating a chapter to each stakeholder group, we hope to demonstrate our holistic approach to monitoring, auditing and reporting on the company’s performance against its stated targets and ethical policies in a cohesive way. We have also aimed to follow a similar format to the first Values Report, in order that comparisons be made and our commitment to continuous improvement charted.

Each chapter presents a summary of the Company’s aims, together with a description of the stakeholder consultation process, as well as key performance indicators relating to environmental, animal protection and social issues as well as progress toward set targets.

Where possible, data has been provided for the audit periods 1 March 1995 to 28 February 1996, and 1 March 1996 and 28 February 1997 for comparative purposes. We have been careful to avoid direct interpretation, other than drawing attention to key shifts in perceptions or impacts. Where appropriate we have provided context and explanation to avoid misconception. Final interpretation, however, is a matter for the reader and for subsequent dialogue between the company and its stakeholders.

As with our first Values Report, the principal subject of the Values Report 1997, is the company’s business in the UK. Most of the information relates directly to the Watersmead site in the UK, the principal home to The Body Shop’s manufacturing, production, warehousing, and international head office. Additional information is
included on our other two manufacturing sites in the UK: Wick (Littlehampton, Sussex) and, for the first time, Soapworks, our soap-making and production facility in Easterhouse, Scotland.

As with The Values Report 1995, independent verification of activities for the period 1995/97 concentrates on the Watersmead audit and management systems. However, as part of the company’s commitment to EMAS registration during 1998, the company will be producing site-based environmental reports for its Watersmead, Wick and Soapworks sites in the future and verification will be extended to all three sites. Environmental data pertaining to these sites has been presented in summary form in the Values Report.

Information about The Body Shop Inc in North Carolina, USA and our international retail business (including the UK and USA) has been excluded from the Values Report as the decision has been taken for these areas of the business to produce stand-alone public statements. In particular, the US is embarking on its own social audit process during 1998 and is planning to publish environmental and social statements in the next year. Likewise, a separate environmental statement is being produced by our UK Retail business during 1997/98.

The Values Report 1997 focuses on the stakeholder groups included in the first Values Report: employees, international head franchisees, UK franchisees, customers, suppliers including Community Trade suppliers, shareholders, the local community, and campaigning groups, with the exception of The Body Shop Foundation which, as a separate entity, publishes its own annual statement. The media, regulators and the ethical investment community have been identified as potential stakeholder groups for inclusion in our future audit cycles. Animals and the Environment also have their own chapters, in order to present information on these issues where they may not naturally fall into other stakeholder groups.

Table 1 presents a framework to help the reader understand the scope of the Values Report and the extent to which information in each statement has been subject to internal audit and external verification.
From Table 1 it is clear that most significant areas of the company are being addressed for all three areas of ethical concern in the UK. Further progress needs to be made in the USA - especially with respect to environmental auditing. In addition, appropriate social audit procedures need to be developed and put in place for our USA operations. 1997/98 will see tangible progress in both areas. Programmes for international head franchisees necessarily take more time to develop, but we have been very pleased with the environmental auditing and information gathering activities of franchisees since 1992. This will be further consolidated during 1997/98 and appropriate social audit programmes introduced as soon as practicable.

**Policies and Organisational Structure**
The Body Shop’s Mission Statement dedicates the company to the pursuit of social and environmental change. It is a holistic document, embracing human and civil rights, ecological sustainability and animal welfare. The Mission Statement also makes clear that the company should work tirelessly "to narrow the gap between principle and practice". Underpinning the Mission Statement is a Trading Charter which addresses the three principal ethical concerns of The Body Shop whilst committing the company to "appropriate monitoring, auditing and disclosure mechanisms to ensure our accountability and demonstrate our compliance" with our trading principles.
Mission Statement

Our Reason for Being:

To dedicate our business to the pursuit of social and environmental change.

To Creatively balance the financial and human needs of our stakeholders: employees, customers, franchisees, suppliers and shareholders.

To Courageously ensure that our business is ecologically sustainable: meeting the needs of the present without compromising the future.

To Meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect.

To Passionately campaign for the protection of the environment, human and civil rights, and against animal testing within the cosmetics and toiletries industry.

To Tirelessly work to narrow the gap between principle and practice, whilst making fun, passion and care part of our daily lives.
Trading Charter

The way we trade creates profits with principles.

We aim to achieve commercial success by meeting our customers’ needs the provision of high quality, good value products with exceptional service and relevant information which enables customers to make informed and responsible choices.

Our trading relationships of every kind - with customers, franchisees and suppliers - will be commercially viable, mutually beneficial and based on trust and respect.

Our trading principles reflect our core values.

We aim to ensure that human and civil rights, as set out in the Universal Declaration of Human Rights, are respected throughout our business activities. We will establish a framework based on this declaration to include criteria for workers’ rights embracing a safe, healthy working environment, fair wages, no discrimination on the basis of race, creed, gender or sexual orientation, or physical coercion of any kind.

We will support long term, sustainable relationships with communities in need. We will pay special attention to those minority groups, women and disadvantaged peoples who are socially and economically marginalised.

We will use environmentally sustainable resources wherever technically and economically viable. Our purchasing will be based on a system of screening and investigation of the ecological credentials of our finished products, ingredients, packaging and suppliers.

We will promote animal protection throughout our business activities. We are against animal testing in the cosmetics and toiletries industry. We will not test ingredients or products on animals, nor will we commission others to do so on our behalf. We will use our purchasing power to stop suppliers animal testing.

We will institute appropriate monitoring, auditing and disclosure mechanisms to ensure our accountability and demonstrate our compliance with these principles.
Together with The Body Shop’s Memorandum of Association, which also affirms the values-led nature of the business, the Mission Statement and Trading Charter provide the central thrust for the company’s ethical policies and its desire to demonstrate accountability on ethical issues. At the present time, The Body Shop maintains a number of formal policies, guidelines and procedures manuals which underpin the ideals expressed in the Mission Statement. Some are still under development and await formal release. However, the current picture is depicted below.

Figure 1    Guide to The Body Shop International key policies on ethical issues.

In early 1994, in order to promote compliance with its ethical policies, The Body Shop set up an integrated Ethical Audit department which today provides support for the company’s ethical stance in (i) policy development and maintenance, (ii) auditing and reporting, and (iii) best practice research, advice and training.

The department is organised along stakeholder lines, with each of the main professional groupings taking special responsibility for the needs of particular stakeholders. This integrated matrix-style approach to ethical auditing has proven effective in streamlining communications and avoiding head office departments and stakeholders being confused by differing values-related audit demands. The department reports directly to the Executive Committee.

The audit department is not usually responsible for day-to-day operational management of ethical issues. Where it is necessary to develop a system of quality control centrally, the Ethical Audit department may take provisional responsibility for it. But this is always with the intention of floating the system off into the relevant business entity at the earliest appropriate opportunity. Thus, for example, the Supply division maintains its own Environment, Health and Safety management group, the Purchasing group has its own systems for moving suppliers forwards on ethical issues and the Technical department maintains its own systems and records on the ethical profile of product ingredients.
ENVIRONMENTAL AUDITING

Environmental reviews and audits have come a long way since the early 1980s. Pioneered in the United States and largely driven by heavy industries who had to minimise civil liabilities, early audits tended to equate environmental risks with health and safety ones. This was a natural development for industries like energy and petrochemicals which already had long track records of health and safety auditing. The experiences of the Soviet authorities in Chernobyl, Union Carbide in Bhopal and Icmesa in Seveso certainly served to emphasise the relationship between occupational and environmental risks.

But growing environmental awareness among the general public prompted a growth in environmental auditing in companies who had lower levels of exposure to risks of industrial accidents. Thus, new techniques reflect wider public concerns and often go beyond the limitation of risks or compliance with legal responsibilities for health and safety or pollution control.

Audits now examine how to save money on waste treatment and disposal and how to reduce energy consumption; both are especially relevant for organisations who want to justify spending money on improved environmental performance. Audits can also cover: procurement policy (including suppliers); global environmental responsibilities (e.g. the reduction of CO$_2$ emissions); education and awareness raising; and a company’s whole approach to environmental strategy.

Because these issues often strike at the very heart of an organisation’s culture and can affect profits - either positively or negatively - it is not surprising that methodologies available for environmental auditing have been examined in some detail in recent years.

Happily, despite the growing diversity of organisations involved in auditing, standards and approaches have been converging in recent years. Auditing is now seen as a tool to be employed within a formal Environmental Management System (EMS). An EMS establishes effective ways of detecting and responding to environmental problems.

**Environmental Management System**

In late 1991, The Body Shop International adopted the (then) draft European Community Eco-Audit Regulation as the principal framework for the company’s environmental management, auditing, and public reporting. The first Environmental Statement was published in May 1992 focusing particularly on the environmental performance of the main headquarters and manufacturing site at Watersmead in Littlehampton, Sussex.

During 1992 and 1993, the draft Eco-Audit Regulation underwent further negotiation and development, eventually emerging as the European Union Eco-Management and Audit Scheme (EMAS). The scheme retained its voluntary nature - a point of some concern to The Body Shop. But several essential components, most notably continuous improvement of performance, a commitment to best practice and independently verified public disclosure, ensured that the measure retained credibility.
The Body Shop's experience of EMAS has been very positive. Despite the parallel emergence of a British Standard (BS 7750) and an International Standard (ISO 14001) for environmental management systems, we believe that EMAS represents by far the most exacting framework for ensuring best environmental practice in industry.

Figure 2 illustrates the key requirements of EMAS. It should only be a matter of applying logic for any industrial concern to follow each step in the loop to the satisfaction of external verifiers in order to meet the standard. However, in the experience of The Body Shop, logic is only half the story. The other half is hard work and commitment throughout the organisation. Like any management system, it only works effectively if the organisation itself is dedicated to adoption at every level.

Figure 2 Framework for environmental auditing and disclosure at The Body Shop (based on main requirements of the European Union Eco-management and Audit Scheme).

Listed below are the key requirements of EMAS with commentary on how and when The Body Shop put in place the components necessary to meet the standard.

**Review or Adoption of Policy**
The Body Shop adopted environmental goals for the first time in 1990. These were based loosely on the Valdez (now CERES) principles of corporate environmental accountability and were designed in a series of meetings involving senior managers of the Company. In early 1992, these goals were converted into a formal policy, endorsed by the Main Board of The Body Shop. They committed the Company to best practice and continuous improvement. The main Policy was next updated in 1994 and issued formally, along with a new comprehensive set of guidelines and procedures in early 1995. It is due for a further review by the end of 1997.

**First Review of Site**
Although an 'environmental audit' of The Body Shop was conducted in 1989 when the Company was still based on the Wick site, in retrospect this would now be described as a 'review' because it did not audit against policies or management systems. The first formal environmental assessment of the Watersmead site was conducted in late 1991/early 1992 in line with the draft provisions of the EC Eco-Audit Regulation. The external verifiers confirmed in April 1992 that the 1991/92 assessment did at least meet the first review criteria of the draft EC Regulation.
**Introduction of Environmental Management Programme**

In preparation for the 1991/92 assessment of environmental performance on the Watersmead site, individual departmental objectives were set throughout the organisation. These took the form of terms of reference for Departmental Environmental Advisers (DEAs) - a volunteer network of staff members. Departmental and DEA objectives were agreed with each departmental manager in a series of meetings which served both to formalise the DEA role and to set out the departmental agenda for the following year. In addition to the departmental objectives, a number of strategic targets were put together with time scales for implementation. These were published in our first environmental statement, The Green Book. The objective setting process has continued to evolve over the years, and has now been complemented by the action plans deriving from the internal ethical management systems audits, and the comprehensive objectives which derive from the targets setting process with the company’s Executive Committee. These targets are set based on the results of the interlinked audit processes leading to the Values Report.

Since the formalisation of internal environmental management systems and audit programmes in 1991/92, The Body Shop has relied almost entirely on its in-house professionals rather than external consultants. External consultants have only been employed for specialist inputs to environmental programmes, eg energy management, waste minimisation, and verification. In our experience, this has proven cost-effective and efficient. The period from 1991 to 1995 has also seen a steady consolidation of the split between day-to-day site-based environmental management (which is now conducted on behalf of the company on a site-by-site basis by the Supply Health, Safety and Environment department) and the audit function (carried out by the Ethical Audit department). This split, which may be likened to the difference between quality control and quality assurance respectively, avoids potential conflicts of interest and ensures maximum integration of environmental programmes within the business.

**Site-Based Internal Environmental Audits**

In 1992, The Body Shop’s corporate Environment, Health and Safety Audit department designed management systems audit checklists for application throughout the organisation. These checklists evolved through an examination of best practice, consideration of the requirements of the European Regulation, and through an analysis of issues and priorities relevant to the Company’s international business. The audit checklists which emerged were applied for the first time in the autumn of 1992 on the Soapworks site in Glasgow and were subsequently used on all main operating sites of The Body Shop in the UK and US.

The internal management systems audits based on these checklists took the form of face-to-face confidential interviews throughout the organisation. Checklists were analysed quantitatively and qualitatively and internal management reports were filed with each part of the organisation audited.

Since 1993, the audit checklists have been updated and developed, and during 1995 became part of the new integrated ethical audit procedure. Integrated ethical management systems audits were carried out in every area of the Company during the last audit cycle which ended in May 1997. Integrated audit reports and action plans have been filed with every key area of the Company. The integrated audit
process covers environment, health and safety, social, animal protection and information management. The reports are submitted to divisional and departmental managers who then have the responsibility to implement the actions within the recommended time frames. These reports are for internal use and are not published.

**Setting Strategic Objectives**

Since 1992, departmental objectives have continued to be set on an annual basis for most Watersmead-based activities. In 1993, these were produced in a stand-alone format which was published internally as an awareness-raising document. In each case departmental objectives were formally signed off by senior managers and their Departmental Environmental Advisor. In 1994, objective-setting on the Watersmead site was devolved to operational divisions. Corporate departments continued to produce a formal document for internal awareness-raising, other divisions relying more on internal memoranda.

Throughout the period from 1992 to 1995 the recommendations of the independent verifiers were taken up automatically into the next round of departmental and strategic objective-setting, but in some cases this led to inopportune timing. In 1995, therefore, final objective setting was left until after the receipt of the detailed reports of the external verifier, to ensure that any recommendations made as part of the internal audit or external verification process could be immediately and automatically embraced as part of the 1995/96 environmental programme for each division. In addition to internal objective setting, strategic Company-wide targets have continued to be set on an annual basis and published in the Environmental Statement.

**Preparation of Environmental Statement**

The Body Shop published its second and third Environmental Statements in line with EMAS in May 1993 and June 1994, which again concentrated on environmental performance on the main site at Watersmead. In 1996, The Body Shop published its first Values Report which included our first Animal Protection and Social Statements, and the fourth Environmental Statement. This fourth report extended the scope of our independently verified public reporting by covering our environmental performance at two further sites - Wick (Littlehampton, UK) and Wake Forest (North Carolina, US). In addition, data provided by international markets were collected and analysed for the first time and included in the public statement. There were also sections on Soapworks, the Glasgow-based soap factory, and stores in the UK.

Our environmental reporting format has changed in the current report, with much of the site-based performance detail having been transferred to site-based reports in preparation for registration of the three UK sites under EMAS. This detailed site performance data are also available on the Internet web-site. The next corporate performance update will be in the next Values Report in 1999. Site-based reports for the three UK sites will be prepared during 1998, and we will continue to submit our annual CERES report.
Verification
Each year since 1992, The Body Shop has commissioned external verifiers to attest to the fact that the Company’s site-based environmental management and reports meet the criteria of the European Union Eco-Audit (now Eco-Management and Audit scheme - EMAS). Selection of the verifier involves inviting tenders from around six verification firms. As noted above, in the first three years this verification covered the Watersmead site only. In 1995, this was extended to include the Wick and Wake Forest sites. In each case the verifiers spend several person-days on-site testing the efficacy of procedures and the accuracy of the Environmental Statement. The draft statement is available to the external verifier prior to commencement of their verification of the environmental policies, programmes, management systems and internal audits. Following advice from the verifier, minor alterations are usually made to the Statement to improve its public understanding.

Following the physical verification, a formal verification statement is submitted for inclusion with the public environmental statement. A longer report, which includes confirmation of the status of management systems with respect to EMAS, together with more detailed recommendations for improvement, is also submitted by the verifiers.

In line with our strategic target that by end 1996, all principal UK and US operating sites will be audited and verified to EMAS standards, our Glasgow site, Soapworks was included in the current verification process. Our previous Environmental Statements have included details of performance at Wake Forest in the USA and the UK Retail Company. As both these markets are producing their own performance reports, detailed performance results have not been included in the 1997 Values Report.

Publication of Environmental Statement
Following verification, the Environmental Statement is published and distributed to interested parties. In 1992, a summary broadsheet was also distributed alongside the full statement. This proved especially popular with retail stores and customers. Similar summaries and popularising mechanisms were put in place for the 1995 Values Report. In 1996, the Company also started to utilise the Internet as a way of making the Values Report available to the public.

Registration
The European Regulation has been technically available for companies to comply with and register since April 1995, and member states of the EU introduced formal systems for accrediting verifiers and registering participating industrial sites under EMAS during 1995. The Body Shop has now set a target that by the summer of 1998, all three UK sites will achieve formal EMAS registration based on site-based reports.
SEVEN DO’S AND DON’TS
OF
ENVIRONMENTAL AUDITING AND DISCLOSURE

Do get free/cheap advice wherever it is available: DIY manuals, local and central government departments, local and national business clubs, simple booklets and guides to the issues.

Do set up informal networks of internal supporters and environmental representatives to aid communications and internal campaigns.

Do involve departments, managers and staff at every level, especially in policy formulation, internal objective-setting, communications and training.

Do set up an internal independent audit system or department and have them report to a main board/executive director.

Do use consultants for specific tasks, eg. first review, audit verification, technical tasks (eg. energy auditing). Always network with other businesses to find recommended consultants or local academic institutions for support.

Do consider adopting a formal standard for environmental auditing and management - but only when you’re ready to commit.

Do report: formally and informally, publicly and internally. Stakeholder understanding is crucial to progress, as are targets and objectives for the future.

Don’t assume that you have to be an expert. A great deal of environmental management and auditing is simply common sense. Networking and asking questions of similar businesses is the best way to avoid mistakes.

Don’t put too many resources into auditing if they are better directed at obvious priority actions and improvements - especially in the early days.

Don’t forget that people want to be inspired by a vision; environmental activists are often happy to talk to business groups and companies committed to improving their environmental performance and participate in external campaigns.

Don’t forget to motivate, train and then re-motivate your managers, staff and volunteer networks.

Don’t use consultants for general activities that are the proper responsibility of staff and managers, eg. objective setting, resource allocation, co-ordination. If management cannot take these basics on board you are wasting your time.

Don’t kill enthusiasm by introducing too many systems too early. Make it fun and don’t be afraid to be controversial.

Don’t be afraid of including both good and bad aspects of environmental performance; better that you draw attention to your faults than have your critics do it.
SOCIAL AUDITING

The development of social auditing follows a long tradition of exploring the social and ethical dimension of business behaviour. Early references to social auditing can be traced back to the late 1960s. The first attempts were largely concerned with expanding conventional financial reporting to include information on ‘corporate social expenditure’. In the US, social reporting practices were rapidly adopted by large corporations as a response mechanism to intensifying criticism by shareholders and the general public. By the late 1970s the majority of Fortune 500 companies included a page or two in their annual reports to inform readers of their ‘social expenditure’ or to disclose statistical information on eg. equal opportunities or related issues.

A second type of social auditing developed in the 1980s. This new wave was essentially driven by the consumer movement and by the evolving ethical investment community who were keen to build up and publish profiles of corporate social performance. Although the majority of these profiles were not referred to as social audits or reports, that was very much what they were trying to do - to inform customers or other interest groups about how the assessed companies rated against certain sets of social and ethical criteria. The fact that a number of these investigations became instant bestsellers in the late 1980s and early 1990s - for instance Shopping For A Better World and the 100 Best Companies to Work for in America - demonstrated that there was great interest in such information.

The 1990s have seen the beginnings of a third wave in social auditing driven by companies who have adopted an active moral stance. This time social auditing is not a process imposed from the outside. It is driven by the organisation itself.

In 1991, Traidcraft Plc, a UK-based fair trading organisation, joined forces with the not-for-profit research organisation, the New Economics Foundation (NEF), to develop a more systematic approach to social auditing. The resulting audit method was born out of a mix of community-based participative research techniques and organisational development literature. At its core was a ‘stakeholder approach’. Traidcraft has now released several social reports. Its initiative is perceived as a pioneering effort to advance more rigorous approaches to social auditing.

Another manifestation of the internally-driven social audit was the ‘ethical accounting statement’ developed in Denmark by the Copenhagen Business School. This approach was first trialled in 1990 by a regional Danish bank, Sbn Bank, which has since produced annual statements of its social performance. A number of Danish organisations, ranging from small companies to hospitals and schools, have now adopted this method. Like the method developed by NEF and Traidcraft, the ethical accounting statement involves a consultation process with the organisation’s key stakeholders. Beyond this, the ethical accounting approach encourages stakeholders to propose practical changes to the organisation’s operational practices; eg. customer services or product development. Unlike the NEF/Traidcraft approach, however, the published statement is not externally verified by independent auditors.

One further example characterising the 1990s early attempts to develop internally driven social reporting mechanisms is the one adopted by the American ice-cream manufacturer, Ben & Jerry’s Homemade. Like the above approaches, it tried to describe the social impact of the organisation’s activities on key stakeholder groups.
Similar to the verified social audit and ethical accounting statements, it involved stakeholder consultation and external validation, albeit in a less systematised way. The main feature of Ben & Jerry's approach was to invite a high profile advocate of corporate social responsibility to spend time each year exploring any aspect of the company’s activities that he or she might deem important. The idea being that the external commentator has free access to the company’s internal records and a freedom to consult the company’s stakeholders on an ad hoc basis. Based on this process the person then writes a personal evaluation or ‘social statement’.

As the editors of a recent publication exploring the emergent practice of social and ethical auditing point out, a comparison of the different emerging approaches is not straightforward, since the circumstances of different accounting processes are often critical in determining the design. However, they further point out that there are clear signs of convergence of social auditing standards taking place and a gradual emergence of consensus about what constitutes some of the key principles of good practice.

Driven by a desire to promote convergence of standards in social auditing a decision was taken in early 1995 to establish an institute that would work towards and encourage the emergence of a processional approach with agreed standards not only in the method, but also in the quality of accounting and auditing in practice. The Institute of Social and Ethical AccountAbility was established in the summer of 1996. The Body Shop together with British Telecommunications provided their support by becoming founding members.

Click here to link to ‘Institute of Social and Ethical AccountAbility’ Website.

The following outlines the key principles of social auditing as advocated by the Institute of Social and Ethical AccountAbility. These have been adopted by The Body Shop as the driving principles behind the company’s methodology development and implementation.
KEY PRINCIPLES OF SOCIAL AUDIT

Inclusivity
Social audit should reflect the views of all those involved with or affected by the organisation (the stakeholders), including their worldviews, concerns, needs, aspirations, and perceptions. In this context it is important to distinguish between such concepts as consultation (usually one-way) and dialogue (usually a two-way process).

Comparability
Social audit should offer a means whereby the organisation can compare its own performance over time, make comparisons with other organisations engaged in similar work, and relate their performance to appropriate social norms drawn from external benchmark information from other organisations, statutory regulations or non-statutory norms.

Completeness
Social audit should ultimately embrace all aspects of an organisation’s ‘social footprint’; i.e. no area of the company’s activities can be deliberately and systematically excluded from the assessment. The principle of no ‘malicious exclusion’ is the key criteria within any one audit cycle.

Evolutionary
Social audit should be regular and its scope evolutionary in that all significant aspects of the organisation’s ‘social footprint’ are addressed over time.

Management Policies and Systems
It is essential for any systematic audit process that the organisation develops clear policies covering each accounting area, and systems and procedures that allow the accounting process itself to be controlled and evaluated and the organisation’s awareness and operation of policies and commitments to be assessed through a management systems audit process.

Disclosure
For social audit to have the most constructive possible effect, the results of the process need to be disclosed to the key stakeholders who have been implicated by the process. Internal and external disclosure adds value to the process by ensuring that it can be used as a means to contribute to organisational learning and dialogue culture as well as in strengthening the company’s public legitimacy via increased transparency and accountability.

External Verification
Social accounts, especially if aimed at increased organisational legitimacy, should be verified by an independent agent who has no vested interests in the results.

Continuous Improvement
The ultimate aim of social auditing must be to assess progress rather than merely retrospective performance. That is, any relevant system must be able to identify whether the organisation’s performance has improved over time in relation to its articulated values, mission and targets set by the organisation as well as those established through broader social norms. 21, 21
The Body Shop Social Audit Methodology

The following pages aim to represent the social audit methodology used by The Body Shop. The methodology development work first commenced in 1993 and was formalised for the first social audit cycle of 1994/95. The development of the methodology was a collaborative effort with New Economics Foundation. The aim was to synthesise some aspects of environmental management and auditing, quality management and the long tradition of academic and practical work in social auditing.

The framework presented below outlines the different components of the audit cycle as they are implemented by The Body Shop. The audit cycle consists of ten key components, namely: policy review, determination of audit scope, agreement of performance indicators, stakeholder consultation, internal management systems audit, preparation of accounts, agreement of strategic and local targets, verification, publication of statement and internal reports, and follow-up dialogue with stakeholders. The following describes the implementation of each component for the first audit cycle of 1994/95 as well as their further development during the second audit cycle of 1995/97.

Figure 3 Framework for social auditing and disclosure at The Body Shop.

Commitment

The Body Shop committed itself to a formal social audit process in 1992. This followed publication of Anita Roddick’s autobiography in 1991 in which she wrote: “I would love it if every shareholder of every company wrote a letter every time they received a company’s annual report and accounts. I would like them to say something like, 'OK, that’s fine, very good. But where are the details of our environmental audit? Where are the details of your accounting to the community? Where is your social audit?'”

There is no doubt that had it not been for the commitment of the founders of the Company and the development of an ‘accountability ethos’ within The Body Shop in the early 1990s, the Company would not have been in a position to publish a statement of its social performance in 1996. As with environmental management and auditing, clear leadership is probably the most important single factor in driving a process of social auditing and disclosure to a successful conclusion.
**Policy Review**

For any audit process to be meaningful, it is essential to understand which policy statements are relevant and which need to be developed in order that the organisation’s performance can be measured against a set of strategic aspirations. For The Body Shop’s first social audit, the main policies against which performance was judged were the company’s Mission Statement and Trading Charter. More specific policies and guidelines existed for health and safety at work, human resources (managers’ and employees handbooks) and Fair Trade (Community Trade programme). These were also used as the basis for assessing the ability of management systems to deliver on policy commitments.

For the second audit cycle, the policy review needed to embrace the updates and additions to all of the specific policies and their underpinning procedures mentioned above.

**Determination of Audit Scope**

Because parallel systems exist at The Body Shop for auditing and reporting on ethical performance with respect to animal protection and the environment, the subject area of the social audit was restricted to people: human stakeholders who may affect or be affected by The Body Shop. The number of individual stakeholder groups could theoretically be quite large and a decision had to be taken as to which groups should be included in the first and subsequent audit cycles. The Body Shop took the view that in the first cycle, the net should be cast as wide and as deep as possible. But inevitably some groups and sub-groups could not be reached for practical reasons.

Another important factor in the scoping of a social audit is geography. Where a company has wholly or majority-owned operations in different countries, a decision has to be taken as to whether one or all countries are to be covered in each cycle. For The Body Shop this meant choosing not to include US stakeholders in any great depth in the first year but to concentrate mostly on UK-based groups. So although some US information was gathered with respect to franchisees and customers it did not constitute the systematic effort that was devoted to the UK social audit process.

The last factor to be taken into account in scoping a social audit is the level to which indirect stakeholders may be embraced. For The Body Shop this required a decision about whether, for example, staff of franchisees or NGOs in franchised markets should be consulted. It was decided that such stakeholders were better consulted directly at such a time when franchisees were able to conduct their own audit processes.
The stakeholder groups for The Body Shop’s first social audit included:

- Directly employed staff by The Body Shop International
- International Head Franchisees
- UK and US Local Franchisees
- UK and US Customers
- Suppliers
- Community Trade Suppliers
- Shareholders
- Local Community (Littlehampton)
- UK Non-governmental Organisations
- Foundation Applicants.

The 1995/97 audit cycle has involved the following changes to the audit scope:

- Commitment to an independent social audit process in the US (The Body Shop Inc, a subsidiary to The Body Shop Int.) Initially the scope in the US will embrace directly employed staff and US Franchisees. Therefore, information relating to these two groups have not be included in the Values Report 1997.

- Commitment to an independent social audit process by The Body Shop Foundation. Therefore, information relating to the Foundation or its Applicants will not be included in the Values Report 1997. However, information on The Body Shop’s company giving is included in the audit scope.

**Agreement of Performance Indicators**

There are three types of performance measurement in The Body Shop’s approach to social auditing. They are:

1. Performance against *standards* (performance indicators). These should reflect nationally and internationally available information on best practices for activities and policies that describe the organisation’s social performance. Measures may be both quantitative and qualitative. Standards are agreed in memoranda of understanding with relevant departments which then have the responsibility for collecting relevant information. Data are submitted by the departments and validated by the audit and verification processes.

Where appropriate, departments are encouraged to set internal benchmarks/targets relating to individual standards, and to collate information on external benchmarks. Therefore, the ideal set of reported information relating to individual standards should evolve to towards the following format:
Table 2  Ideal format for reporting performance indicators

<table>
<thead>
<tr>
<th>Standard</th>
<th>Performance Indicator</th>
<th>Internal Benchmark/target</th>
<th>External Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>eg Employee</td>
<td>Based on on-going internal monitoring; data and monitoring process subject to internal audit and verification</td>
<td>Based on target-setting by relevant department or company</td>
<td>Based on publicly available data on eg industry performance</td>
</tr>
</tbody>
</table>

Where data are available, historical data on performance indicators should be reported at least for the preceding audit cycle.

2. Stakeholder perception of performance against core values (ie. The Body Shop Mission Statement and Trading Charter). These core values are essentially defined by the organisation itself. Each stakeholder group is consulted to establish their perception of how closely the organisation’s performance matches its stated aspirations.

3. Stakeholder perception of performance against specific needs of stakeholders. These needs are particular to individual stakeholder groups. They are identified as salient through consultation with stakeholders in focus groups and measured in anonymous and confidential surveys of opinion.

Stakeholder Consultation
One of the most important and sensitive processes in social auditing is the engagement of stakeholder representatives in dialogue. It is especially important to identify salient issues for each group in face-to-face conversation before conducting wide-scale surveys of opinion. The first social audit engaged stakeholder groups in focus groups to explore specific stakeholder needs and to allow stakeholder views and concerns to be expressed. To ensure open dialogue in the discussion, it was considered important, especially for the initial stages of the process, that the verifiers had access to the process as observers.

Following the focus groups, when specific issues had been identified as salient or of particular interest to stakeholders, questionnaires were designed to measure more wide-scale opinion. These questionnaires were intended to capture perceptions of the company's performance against both stakeholder-specific needs and core values articulated by the company.

Questionnaires were designed with professional assistance to avoid inadvertent introduction of bias. Space was also allowed on the questionnaires themselves for open-ended commentary on the company's performance.

Surveys were done using the largest manageable sample size; respondents completed the questionnaires anonymously and returned them to an independent organisation for confidential analysis. Only summary information and lists of comments were submitted to The Body Shop for inclusion in the audit process. In some cases response rates were high (eg for staff who were given one hour off work to complete them) and in others quite low (eg for non-governmental organisations who received the questionnaires by post). In most cases the resulting sample size
was large enough to draw quite clear conclusions. In some cases the sample size was relatively small and care was needed in interpreting the results.

Following publication of the results of the social audit, it was considered vital to obtain feedback from stakeholders and engage them in follow-up dialogue about how they reacted to the findings presented in the Social Statement. This process of dialogue helps shape future audit cycles, enables indicators and data presentation to be fine tuned for future cycles and helps set priorities for future action by the company.

The following Table 3 outlines the key phases of how different stakeholder groups have been consulted since the social audit process began in 1994. It also indicates plans for future consultation.

Table 3 Social audit stakeholder consultation since 1994

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Employees (directly employed by The Body Shop Int)</td>
<td>Yes&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>US Employees (directly employed by BS Inc, a subsidiary to The Body Shop Int)</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>International Franchisees</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>UK Franchisees</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>US Franchisees</td>
<td>Yes&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>UK Customers</td>
<td>Yes</td>
<td>Yes&lt;sup&gt;4&lt;/sup&gt;</td>
<td>No</td>
<td>Yes&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Yes</td>
</tr>
<tr>
<td>US Customers</td>
<td>Yes&lt;sup&gt;4&lt;/sup&gt;</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Community Trade Suppliers</td>
<td>Yes&lt;sup&gt;7&lt;/sup&gt;</td>
<td>n/a</td>
<td>Yes</td>
<td>n/a</td>
<td>tbc</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Yes&lt;sup&gt;8&lt;/sup&gt;</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes&lt;sup&gt;9&lt;/sup&gt;</td>
</tr>
<tr>
<td>Local Community (Littlehampton)</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>UK Non-Governmental Organisations</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>tbc</td>
</tr>
</tbody>
</table>
The Internal Management Systems Audit
There were three main sources of information for The Body Shop's first audit process: i) the results of the focus groups and surveys described above; ii) the documentary information provided by departments which had agreed quantitative and qualitative standards; and iii) the output from confidential internal audit interviews with staff and managers. This latter source of information was based on the kind of 'management systems' structured interviews used in environmental auditing. Checklists were developed specifically for the purpose of the interviews and results used to build up a dynamic picture of departmental and divisional handling and knowledge of issues and company policies relevant to social performance.

During 1996/97 the internal management systems audit was further developed toward an integrated methodology whereby individual divisions and/or departments of the company were audited on management systems relating to the company's policies on environment, animal protection, occupational health and safety, information management and social issues.

The current internal audit cycle commenced in January 1996 and ended in May 1997. During this cycle thirty divisions/departments were audited and reports filed with senior management. The audits result in time framed action plans prioritising recommendations for proposed improvements. The audit reports as well as documentation relating to the auditing procedures are made available to external verifiers.

During 1996/97 the supplier and 3rd party manufacture's on-site audit procedures were also expanded to include issues of relevance to the social performance of suppliers. Thirteen audits including social issues were carried out during 1996/97. These audit reports are also made available to the external verifiers.

Preparation of Accounts (the Social Statement)
The format chosen for The Body Shop's first Social Statement was based on a stakeholder model, with each group given its own section within the report. An introductory section gave a general explanation about the scope of the social audit and how the information had been compiled and what assumptions were used. The company founders also gave their overview in a Foreword thereby setting a tone to the document.

Each stakeholder section then followed a common format:

1. The basis for the company's approach and aims for each stakeholder group (with reference to relevant policies etc) as well as basic information about the stakeholder group (eg size, structural/contractual relationship to the company).

2. The methodology used for each consultation process (ie. what combination of focus groups, surveys and discussions were used to capture stakeholder perceptions).
3. The results of stakeholder consultation with perception surveys described in as even-handed and neutral a way as possible so as to avoid premature interpretation, together with direct quotations from stakeholders selected in an independent fashion.

4. Quantitative and qualitative standards of performance where these existed.

5. A company response in the form of a quote from a board member or senior manager setting out their reaction to the audit results and noting where progress is already being made and/or where improvements were clearly required ('Next Steps').

The above format was based on the assumption that by setting out the accounts in this way promotes the dialogue process and allows stakeholders to take a view on the adequacy or otherwise of the company response. In order to make the follow-on dialogue process efficient, stakeholders receiving the Social Statement were encouraged to complete a response card and attend a discussion with representatives of the company.

The final components of The Body Shop’s first Social Statement were a verification statement from the New Economics Foundation, and a summary chapter on those stakeholders who could not be included in the cycle, but should be in future cycles. The external verification process should have an influence on the tone, format and style of the Social Statement. The extent of this influence is guided by the verifier.

As mentioned earlier, The Values Report 1997 comprises of a single document, structured in a stakeholder-driven way, each stakeholder section reporting on those aspects of environmental, animal protection and social performance most salient to a particular stakeholder group. Each stakeholder section took the following format:

1. The basis for the company’s approach and aims for each stakeholder group (with reference to relevant policies with special reference to policy developments within the audit cycle).

2. A report on progress toward social audit strategic targets and ‘Next Steps’ commitments made in the Social Statement 1995 and progress toward environmental and animal protection strategic targets set in respective statements.

3. The methodology used for each social audit consultation process (ie. what combination of follow-up dialogue, focus groups, surveys and discussions were used to capture stakeholder perceptions).

4. The results of stakeholder consultation, including: information on follow-up dialogue; results of consultation exercises; and, results of perception surveys where applicable.

5. Quantitative and qualitative standards of performance relating to environmental, animal protection and social performance.

6. A company response in the form of new targets in response to audit results.
The following summarises the quantitative performance standards pertinent to social audit as reported in the Social Statement 1995 and those that will be reported on in the Values Report 1997.

**Employees:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Equal Opportunities monitoring data (eg gender, ethnicity and disability breakdown by salary banding)</td>
<td>✔️</td>
<td>✔️ with additional data on age distribution</td>
</tr>
<tr>
<td>• Average employee turnover</td>
<td>✔️</td>
<td>✔️ With additional data on turnover in manufacturing, retail and office-based operational areas</td>
</tr>
<tr>
<td>• Employee stability rate</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Redundancies and terminations</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Breakdown of exit reasons</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>• Summary of job bands and salary levels</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Overall pay increase</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Pay differential between median pay in Band 1 and median pay in Band 8</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Pay ratio between lowest and highest 10%</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>• Pay ratio to market</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>• Pension scheme breakdown (eg company contributions, membership)</td>
<td>✔️</td>
<td>✔️ With additional data on AVCs and choice of pension funds</td>
</tr>
<tr>
<td>• Flexible benefits (take-up levels)</td>
<td>✔️</td>
<td>✔️ With additional data on breakdown of different choices made</td>
</tr>
</tbody>
</table>
**Employees - continues:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Executive benefits</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• Examples of pay levels with comparisons to market data</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• Appraisal completion</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Internal promotions</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• In-house training courses and programmes organised (incl. number of participants)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Number of company-sponsored professional qualifications gained</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Number of career counselling clients</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Number of employee welfare assistance clients</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Industrial tribunals</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Grievances and disciplinaries</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Sickness/absence rates</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• Accident Incident rates</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• Health and safety endorsement actions taken by authorities</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Work station assessments</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>• Lifestyle and health assessments ('Lifescan')</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
### International Franchisees:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Service levels on orders by departments</td>
<td>☒</td>
<td>☑</td>
</tr>
<tr>
<td>Service levels to different markets</td>
<td>☒</td>
<td>☑</td>
</tr>
<tr>
<td>Stock-related complaints from markets</td>
<td>☒</td>
<td>☑</td>
</tr>
<tr>
<td>Assistance provided with technical enquiries from franchisees and customers</td>
<td>☒</td>
<td>☑</td>
</tr>
<tr>
<td>Training offered to markets by Ethical Audit</td>
<td>☒</td>
<td>☑</td>
</tr>
</tbody>
</table>

### UK Franchisees:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Service levels on orders to UK Retail Company</td>
<td>☒</td>
<td>☑</td>
</tr>
<tr>
<td>Others as with International Franchisees</td>
<td>☒</td>
<td>☑</td>
</tr>
</tbody>
</table>

### Customers:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer complaints</td>
<td>☑</td>
<td>☑ With additional breakdowns of reasons for complaints</td>
</tr>
<tr>
<td>Customer enquiries</td>
<td>☑</td>
<td>☑ With additional breakdowns of types of inquiries</td>
</tr>
</tbody>
</table>
**Suppliers:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time of payment</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Community Trade:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Community Trade suppliers</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Number of cosmetics and toiletries products containing Community Trade ingredients</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Number of cosmetics and toiletries new product launches</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Examples of pricing arrangements</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Total spend and ratio of Community Trade spend of total purchasing</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Shareholders:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder profile (incl ratio of equity)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Financial highlight (incl worldwide retail sales, turnover, operation profit, profit before tax, adjusted earnings per share, dividends per share, net assists)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Share price performance (incl comparison to FTSE index)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Key ethical screens carried out on the company.</td>
<td>✗</td>
<td>✓</td>
</tr>
</tbody>
</table>
### Community Involvement - Local Community:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community volunteering by employees</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Employment of local residents</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Number of visitors to the company public tour</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Financial support of the volunteering programme</td>
<td>✓</td>
<td>✔</td>
</tr>
</tbody>
</table>

### Community Involvement - Campaigning and Campaign Partners

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Number of campaigns organised</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Key campaigning partners</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Key campaign achievements</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Key campaigning support given to markets</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Financial support of campaigning activities</td>
<td>✓</td>
<td>✔</td>
</tr>
</tbody>
</table>

With additional information on number of markets participating.

### Community Involvement - Company Donations:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Financial donations by the company</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• In-Kind donations by the company</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• Number of staff volunteering as Foundation assessors</td>
<td>✓</td>
<td>✔</td>
</tr>
<tr>
<td>• 'Give As You Earn' (incl. number of participating staff)</td>
<td>✓</td>
<td>✔</td>
</tr>
</tbody>
</table>
Agreement of Strategic and Local Objectives

As with environmental auditing and reporting, a very important part of the process is to set strategic objectives for the business which can help clarify the future priorities of the company and unite all stakeholders behind a common purpose. Setting strategic objectives and placing these in the public domain requires a significant amount of internal discussion, management commitment and senior ‘sign-off’.

Strategic objectives must also be underpinned by subsidiary or localised objectives which apply more specifically to individual stakeholder groups or parts of the company. The latter are in some ways simpler to negotiate because they involve fewer decision-makers at the corporate level. However, the endorsement and support of the company board and central management committee are essential if more localised objectives are to be executed speedily and efficiently and kept in line with wider business goals.

As mentioned earlier, the Social Statement 1995 included a response from the relevant board member or senior manager to each stakeholder section. All in all, 89 specific ‘Next Step’ commitments were made together with seven company-wide strategic targets. The Values Report 1997 reports on progress towards these targets. The external verifiers assessed the company’s claims towards these targets. This assessment is available from the external verifier, New Economics.

Click here to link to ‘New Economics’ Website.

The 1997 statement includes 97 new targets relating to the company’s stakeholder/social performance as well as 10 integrated targets where stakeholder/social performance forms a component part.

Verification

Unlike verification of an environmental audit process, where verification can safely be left towards the end of the cycle, it was considered important for the first social audit that the verifiers were engaged and had access to the process throughout. The main reason for this was that when verifying a process aimed at an audit of human relations, it is not enough to examine documentation, conduct interviews with representative staff and test the accuracy of data. Especially in its initial stages, the very process of collecting views from stakeholders has to be witnessed as fair and open.

So during the first cycle the social audit verifiers engaged and participated at every part of the process. This could result in the verifiers becoming compromised, ie. too involved to be objective. So they engage, in turn, a formal advisory panel which meets to assess both the process and the output of the audit. The Body Shop’s first social audit was verified by the New Economics Foundation; NEF appointed people with expertise in a wide range of social policy areas relevant to the company’s audit. The panel of experts met on two occasions and contributed significantly to the framing of the Social Statement. NEF also produced a Verification Statement which summarised their view of the process and which included areas to be addressed in future audit cycles.
Since the first social audit took place, the key components of social audit verification have been further specified by New Economics as follows:

(i) understanding the audit process;
(ii) guiding/encouraging particular direction in the audit process;
(iii) viewing/sampling specific stakeholder interactions where necessary;
(iv) sampling stakeholder survey results;
(v) reviewing policy and other documentation;
(vi) reviewing internal management audit reports;
(vii) staff interviews as appropriate;
(viii) data sampling where considered appropriate;
(ix) comments on the drafting of Social Statement;
(x) selection and management of Audit Review Panel process; and,
(xi) drafting of Audit Verifier’s Statement.

**Publication of Statement**

The Social Statement needs to be a true and fair picture of the social impacts of the organisation, in so far as the defined scope of the audit allows. It needs to be comprehensive and systematic, but above all be understood. Because of the complex nature of a social audit and because of the variety of stakeholder needs for information, a multi-tier approach was adopted for the publication of The Body Shop’s first Social Statement. The full statement was published based on the approved, verified accounts and made available to stakeholder groups.

In addition, more detailed information was provided to employees on specific results relevant to them and their part of the company. A summary document of all the ethical statements was produced for wider scale distribution alongside even briefer material appropriate for customers and other large audiences. In each case readers were made aware of how they could obtain more detailed information. The full Values Report was also launched on the Internet.

Similarly, in 1997 a summary report - The Road Ahead - was published aimed mostly at general audiences. A special broadsheet have also been produced for employees on the social audit results relating to them.

**Follow-up Dialogue and Internal Reports**

Following publication of the results of the company’s first social audit, stakeholders were invited to engage in follow-up dialogue in order to obtain feedback on how they reacted to the findings presented in the Social Statement. The aim of this process is to help shape future audit cycles, enables indicators and data presentation to be fine-tuned for future cycles and help set priorities for future action by the company.

The departments responsible for specific stakeholder relations were encouraged to enter into direct dialogue with stakeholder representatives. In some cases this dialogue has been facilitated and/or attended by the audit team. The Values Report 1997 includes details of this process as it related to different stakeholder groups as well as key resulting actions taken as a result of this dialogue.
Local and Strategic Targets
Target setting provides perhaps the key leverage for continuous improvement in any auditing and public reporting context. The Body Shop has had a formal target setting programme within its environmental management system since 1992. Both local and strategic targets have been set based on audit findings and progress reported on in public statements. Similar target setting programmes were established for animal protection and stakeholder-related performance respectively when audit methodologies were established for these during 1994/95.

The Values Report 1997 reports on progress toward the social audit strategic targets and 'next step' commitments made in the Social Statement 1995 as well as list new targets in response to the second social audit cycle.
SEVEN DO'S AND DON'TS OF SOCIAL AUDITING AND DISCLOSURE

**Do** start with environmental auditing and disclosure if these are relevant to your organisation. Environmental audits are simpler to organise and conduct than social audits.

**Don’t** launch into a social audit without talking to someone who has done one. It is a long term commitment, so plan ahead at least two audit cycles.

**Do** consider joining the Institute for Social and Ethical AccountAbility - an important source of independent advice and experience.

**Don’t** forget the importance of training for social auditing: for managers and auditors. In its current form it is a new science and the principles and pitfalls need to be understood.

**Do** involve departments, managers and staff at every level, especially in deciding the scope for the audit. Key departments are those that have most to do with stakeholder groups, eg. Human Resources, Communications, Investor Relations etc.

**Don’t** forget to focus on the benefits and business case for social performance measurement and disclosure for all stakeholders. Good social auditing should make an organisation more responsive and efficient.

**Do** set up an internal audit system or department and have them report to a main board director.

**Don’t** omit to publicise the role of the audit team and its purpose; people may feel more threatened by a social performance audit than by an environmental audit.

**Do** exercise real care in selecting an independent verifier; they will have access to the very soul of the organisation and their integrity is paramount. Always network to find verifiers with experience who are recommended by others.

**Don’t** forget that you may also need other sources of expert advice, eg. survey design and analysis.

**Do** allow plenty of time for drafting and finalising the Social Statement. Audited departments will be very keen to be involved in putting results in context and proposing priorities for improvement.

**Don’t** allow one stakeholder voice to outweigh others. Take into account minority views but don’t let them take over; a good external verifier will act as wise counsel on the right balance to be struck.

**Do** report: formally and informally, publicly and internally. Stakeholder understanding is crucial to progress, as are targets and objectives for the future.

**Don’t** be afraid of including both good and bad aspects of social performance; better that you draw attention to your faults than your critics do.
Animal Protection

Organisations which conduct animal experiments are usually subject to some degree of external oversight. In most countries, licencing arrangements are handled by governmental bodies who seek to ensure the minimisation of animal suffering during and after experimentation. In the UK licensing is handled by the Home Office. In addition scientists are often subject to professional or institutional codes of practice which also seek to ensure the humane treatment of test animals. Depending on the type of licence, the nature of the experiments and the purpose of the research, oversight might involve site visits by regulatory agencies.

For organisations which choose not to undertake or commission animal tests there is clearly no compulsion to obtain licences or become subject to external or internal professional audit of practices. However, in the Cosmetics and Toiletries industry, where the avoidance of animal cruelty embraces not just the company’s own behaviour, but that of suppliers also, some type of assessment is necessary.

Companies which market cosmetics are now well aware of the interest of consumers in avoiding cruelty to laboratory animals. Historically there have been four levels of company response to this consumer concern:

i) some companies prefer to continue to test or commission tests either to provide arguments against liability claims should product safety ever be challenged or to satisfy third party requests for such testing;

ii) some companies have found it possible to terminate the testing of finished products but reserve the right to continue to test, or ask suppliers to test individual ingredients;

iii) some companies do not test or commission tests on animals either for finished goods or ingredients; however, they may tolerate using suppliers who do test raw materials used for their products, eg. for regulatory or marketing reasons; and finally

iv) some companies do not test or commission tests and use some kind of standard or purchasing rule against which to judge their suppliers and avoid encouraging the perpetuation of testing in the supply chain.

Over the years, animal welfare groups have recognised these different approaches by placing companies on approved or disapproved lists. These lists are almost universally based on information supplied by the companies themselves and although the information is made public in order to help advise consumers, there can be no guarantee that a company is actually doing what it says it is doing on the animal testing question. This uncertainty has led to some confusion and public debate - particularly where animal welfare groups exercise different criteria for judging company behaviour.

Recognising this source of uncertainty, in 1994 The Body Shop started talking to animal welfare societies about how its own procedures and purchasing criteria could be subject to some type of external independent assessment. The idea was, if The Body Shop’s systems (established in 1984) could be verified, then so could other
companies' too. These discussions led to a decision in late 1994 to engage a quality systems assessor to check The Body Shop’s procedures against an International Standards Organisation standard ISO 9002. This standard is aimed particularly at assessing conformance to specified requirements by a Company’s suppliers, the logic is that companies can provide a better service or product quality to their customers if their suppliers are also performing adequately.

ISO 9002 is versatile enough to mean that any company with a non-animal testing stance which is actively seeking to check the performance of its suppliers could be assessed as another dimension of quality. The particular purchasing rule or standard is thus somewhat less important than the management systems and procedures which are in place to back it up. This finally overcomes the fairly futile debate over differing purchasing rules and should allow animal welfare groups to unite by classifying companies using a common, independently verified standard.

The scope of The Body Shop’s assessment against ISO 9002 is "the monitoring of raw materials used in the products manufactured by The Body Shop International plc for compliance with company Against Animal Testing policies. The assessment and rating of the practices of raw material suppliers regarding animal testing".

The Body Shop was formally assessed against ISO 9002 in March 1995 and subsequently has had compliance confirmed biannually. This biannual independent check should continue in perpetuity.

Figure 4 sets out the key steps in The Body Shop’s approach to compliance with ISO 9002 for its animal protection policies. All pertinent parts of the Standard have to be satisfied.

**Figure 4** Framework for Against Animal Testing auditing and disclosure at The Body Shop (based on requirements of ISO 9002).
Review or Adoption of Policy
Since its inception, The Body Shop has had a policy of not testing and not commissioning tests on animals for its products and raw materials. In the mid-1980s, this policy was extended to embrace suppliers so that there was no 'blind eye' or indirect encouragement to animal test. This was achieved by introducing a system of regular declarations which suppliers had to complete for each raw material or product supplied to The Body Shop confirming compliance with purchasing requirements. The Body Shop’s Against Animal Testing (AAT) Policy was updated in early in 1996.

Determination of Scope of Procedures
Most raw material purchasing decisions are taken at The Body Shop’s main head office and manufacturing site at Watersmead, Littlehampton. On other manufacturing sites run by the company (Wick, Soapworks and Wake Forest) purchasing decisions are also subject to the AAT policy as they are at production sites run by franchisees in Canada and Australia. However, since the audit or quality assurance procedures operate from the Watersmead site, it is this site and its oversight of global purchasing functions which is the subject of ISO 9002 assessment.

Design of Procedures Manual, Standards Forms and Other Documentation
The discipline of ensuring conformance to ISO 9002 meant that a number of 'custom and practice' procedures had to be formally written and collated with existing quality control activities. Supplier non-animal testing declarations and in-depth supplier questionnaire forms were also consolidated and included with policies, organisational structures and responsibilities and procedures in a single policy and procedures manual. All of this documentation is akin to a conventional 'Quality Manual'; it simply deals with non-animal testing issues rather than the physical or technical quality of ingredients. The documents are laid out in a consistent format and style, their issue and updating is subject to formal control and each is signed off by the senior managers responsible for the audit function.

Execution of Control Procedures, Maintenance of Records and Statistics
Raw material suppliers to The Body Shop have to complete regular declarations of conformance with the purchasing rule. This quality control-type function is operated from the Technical department which is responsible for controlling all information relevant to formulations used for The Body Shop products. In 1994 in-depth research into suppliers’ activities on product safety testing in general has been conducted directly by the Ethical Audit department. It is this research which has illuminated the situation on re-testing of existing raw materials, and the commitment of suppliers to continued testing for regulatory and other reasons (ie. just because suppliers do not test materials supplied to The Body Shop does not mean that they do not test other materials for other customers). Activities of suppliers with respect to alternatives to animal tests also formed part of the in-depth research. This research formed the basis of the animal protection Supplier Rating which rates raw material suppliers on the use/replacement of animal tests within their business.

The supplier non-testing declarations and the in-depth research generate statistics and records which must be carefully maintained and archived. In the case of the declarations, their careful maintenance was a crucial component of a successful libel case in 1993 when The Body Shop’s activities in this area were challenged by a
television programme. In due course it is possible that day-to-day responsibility for pursuing in-depth research (which is similar to research conducted for environmental reasons) will transfer to purchasing groups as part of their overall approach to rating the performance of suppliers on ethical, technical and business criteria.

**Internal Audit**

The Ethical Audit department has protocols and checklists which it uses to audit compliance of manufacturing and production sites with The Body Shop's Against Animal Testing policies and procedures. These protocols are now being applied to third party manufacturers of finished products supplied to the company. These audits are much more like 'quality assurance', i.e. checking that management systems and procedures are in place, than 'quality control' which is a more direct day-to-day responsibility.

**Preparation of Statement and Internal Reports**

For the first time, in 1995 The Body Shop decided to draft a full statement of its animal protection performance, particularly with respect to the Against Animal Testing policy and procedures. The Animal Protection Statement is similar to the simultaneously prepared Environmental and Social Statements in that it provided the background to policies as well as information on how they are followed and statistics on supplier declarations and ratings based on in-depth research. In common with the other statements there was a level of external verification (with respect to conformance with ISO 9002) and there a commitment to strategic objectives and continuous improvement. The Animal Protection Statement also included information on The Body Shop's position with respect to endangered animal species and the use of animal by-products in cosmetics. These issues were included for completeness but are not subject to any form of external validation.

The Values Report 1997 includes similar information in a section dedicated to animal protection as well as animal protection related information in the sections dedicated to employees, customers, suppliers and community involvement.

**Agreement of Objectives**

Animal Protection policies are somewhat less complex than environmental and social policies. They also involve fewer departments in their execution and enforcement. So the opportunity for target setting and the development of new activities is limited. Nevertheless, as with other ethical audits, the principle of continual improvement is a vital component of the process. It is therefore included via an objective setting process involving relevant departments, and signed off by senior management.

**External Assessment and Certification**

Since 1995 the assessment of conformance with ISO 9002 has been performed by SGS Yarsley ICS, an internationally recognised quality systems assessment group.
Publication of Statement
The first Animal Protection Statement was scheduled for publication alongside The Body Shop’s annual Environmental Statement and the company’s first Social Statement. Because of its novelty, steps were taken to ensure staff familiarity with the process before publication. This was especially important for shop-based staff who are the people most likely to get questions on the subject of animal welfare and the cosmetics industry.

SEVEN DO’S AND DON'TS
OF
ANIMAL PROTECTION AUDITING AND DISCLOSURE

Do talk to animal welfare groups and organisations who are campaigning against animal testing. They are happy to encourage and provide advice to companies who are serious about ending animal tests.

Don’t make product claims or public statements without a clear understanding of the issues and means of delivering on your commitments.

Do consider other animal welfare issues of relevance to your business. There is no point having a strong position on animal testing if this is undermined by other animal welfare impacts.

Don’t forget there are clear differences between conventional and organic farming with respect to animal welfare issues and clear distinctions between the vegetarian and vegan positions on animal welfare.

Do ensure that departments, managers and staff at every level understand the position of the company and are able to explain it to customers and other stakeholders.

Don’t forget to get staff mobilised into campaigns for alternatives to animal tests, and alternatives to cruelly harvested by-products. No one wants to hurt animals needlessly.

Do set up appropriate monitoring and quality control procedures in relevant technical and purchasing departments. Make sure your audit system takes an independent view and reports direct to a main board director.

Don’t forget to train your staff on your policies and procedures and check that operational staff are aware of any updates to policies and procedures.

Do use respected assessors for verifying conformance with standards.

Don’t be afraid to ask animal welfare groups and consultants close to the animal welfare movements for advice on standards, systems and certification.

Do adopt a formal standard and commit to it publicly.

Don’t delay - especially if you are already making product claims on animal welfare.

Do report: formally and informally, publicly and informally. Stakeholder understanding is crucial to progress, as are targets and objectives for the future.

Don’t be afraid of including both good and bad aspects of your performance; better that you draw attention to your faults than your critics do.
Reporting of Ethical Information

Much remains to be learned about the communication of the new and complicated ethical information in ways which are useful and accessible. But experience is growing, not just in companies, but also among the various stakeholders who receive reports.

Report makers should not be afraid to add their weight to calls for mandatory auditing and verification, and public disclosure of environmental and ethical information. In the meantime, hopefully more companies will be encouraged and inspired to 'open up for sustainable development'. The likelihood in the future is that environmental reports will begin to settle into a pattern. This may not be the same for every industrial sector; although it would certainly be helpful for all concerned if there existed common indicators of environmental performance both within and between sectors. There is also a need to establish common standards on verification.

The pressure for companies to become more transparent will no doubt increase. More and more companies are likely to experiment with more than one vehicle for their ethical information in order to satisfy the needs of key stakeholder groups. In addition, hopefully more will start to think about presenting their environmental information alongside other areas in which they have a significant impact - on people for instance, so that progressively more holistic reports will emerge.

The Body Shop's approach to public disclosure of its ethical information has evolved since its first stand-alone Environmental Statement, The Green Book, in 1992 to the publications of the Values Report in January 1996. The Values Report 1995 was the first integrated statement about the company's ethical performance, and was supported by 'The Body Shop Approach to Ethical Auditing' which described the methods used in the areas of environmental, animal protection and social performance.

In May 1997, The Body Shop attempted to expand its communication to shareholders and other stakeholders about the company's performance in its first Stakeholder Report - On Balance - with the aim of embracing all those issues which we believe are crucial for any company's long term viability - financial, ecological and social.
REFERENCES