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# Company report review

## Co-operative Group Corporate Responsibility Report 2003

Maplecroft

January 2005

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The Co-operative Group is the largest consumer co-op in the UK. A co-operative is 'an autonomous association of persons voluntarily united to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise.' As such, the Group's objectives are broader than its financial performance alone, adding credibility to its stated commitment to corporate responsibility as an integral part of overall business strategy.

Established in 1863, the Co-operative Group now works in four business areas: retail, specialist retail; property, production and other trading; and financial services. It operates retail outlets, travel agencies, funeral homes, pharmacies, a car dealership, farms, a bank and insurance business and a property division. The Group employs over 75,000 people and operates through 3,000 high street outlets and on-line services.

The present report is the first consolidated corporate responsibility (CR) report of the Co-operative Group. It includes an introduction from the Chief Executive; an overview of CR management and its place within Group strategy; discussion of CR vis-a-vis key stakeholders, namely employees, individual and corporate members and the community; CR performance in each of the Group's divisions; an auditor's statement; and discussion of lessons learned through the assurance process.

## 1 CR management

Over the past year, the Co-operative Group has prioritized the development of an integrated Group strategy, covering business performance, brand, people management and stakeholder relations. Within its brand strategy, the Group is committed to being a 'leader in corporate responsibility'. The following points are of particular interest:

- The Group's approach to corporate responsibility management is in accordance with AA1000, an assurance standard in the area of sustainability management and reporting.
- The following key stakeholder groups have been identified: individual members; corporate members; employees; the wider community; customers; suppliers; and the co-operative sector.
- Each business unit has introduced a set of key performance indicators, covering both process and impact. The report outlines nine sets of process indicators, relating to responsiveness to stakeholders, environmental management, sustainable purchasing and so on. Progress with these common KPIs in each of the business areas is illustrated using a traffic light system.
- The Group Values and Principles Committee, a senior committee of the Board, oversees the delivery of the corporate responsibility program.
- Risk management is carried out primarily through stakeholder engagement. The Group recently commissioned an external review of its standard risk assessment model.
- The Group's approach to internal and external assurance is outlined, the latter provided by KPMG. The Group Audit and Risk Committee has put in place safeguards to ensure that the independence of KPMG, which provides some non-assurance services, is not compromised.

## 2 CR towards key stakeholders

### 2.1. Employees

In 2003, the Co-operative Group developed its People Values framework, based on five values: customer champions, results driven, innovative, people focused and working together. The Group also carried out its first employee survey, with a 20% response rate. The 'people focused' value was identified as in need of improvement. In response, the Group has introduced a new performance management tool and plans to pay an employee dividend. An action pack

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has also been developed, with materials for four informal team sessions, designed to embed the values across the Group.

## 2.2. Individual and corporate members

The Co-operative Group is jointly owned and democratically controlled by its members. The report outlines the participation process and provides statistics on membership, participation, diversity and training.

## 2.3. Community

The Group measures its community support using the London Benchmarking Group (LBG) model which quantifies all cash, time and in-kind contributions. In 2003, the Group's LBG defined contributions to the community amounted to £8.1 million or 2.5% of operating profits.

Co-operative Group Dividend cardholders can donate their 'spare pennies' – the balance left after they receive their twice yearly payout in whole pounds – to a scheme which awards small grants to community projects. A total of £1.1 million was raised in 2003.

To promote the long-term success of the co-operative sector, the Group works in partnerships with other co-operatives, and in 2003 contributed £1.2 million to such organizations.

## 3 CR performance

The report presents a framework for the development of the Group's approach to CR strategy, methodology, action and reporting. From a 'reactive' position in the past, that is a reactive approach to stakeholder concerns, an unclear business case and ad hoc social and environmental initiatives, the Group has moved through the planning and development stages, and is now looking to embed, consolidate and integrate CR at each level.

For each business area, the report provides financial and non-financial highlights – an overview of performance against seven sets of indicators (described above). The following points are of particular interest:

- A partnership with Carbon Trust has been formed at Group level to reduce carbon dioxide emissions over the next three years.
- The Co-op brand's coffee range has been switched to Fairtrade, boosting the value of the UK Fairtrade coffee market by 15%.
- The Co-op Bank's third annual Ethical Purchasing Index (EPI) was published, showing that the size of the market for ethical goods and services grew by 43% in 2003.
- Co-op brand food decided not to support the commercial growing of genetically modified food.
- Travelcare launched a sustainable tourism policy.
- Co-op Pharmacy will commence building an environmental management system in 2004.
- Co-op's Property Division has secured consent to build a wind farm with the results of a further application pending.

## 4 Assurance

KPMG carried out an independent review of the Group's corporate responsibility report, addressing its overall approach and how this is aligned with AA1000 – a process standard emphasizing materiality, completeness and responsiveness. Key planned improvements are as follows:

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- **Materiality:** To consider materiality not just at Group but also at business level. To strengthen risk management processes to ensure that the concerns of key stakeholders and material risks are captured (stakeholder engagement is planned following publication of the report).
  - **Completeness:** To continue to embed management systems and data collection; to present comparative annual data; to implement two remaining KPIs; and to design and implement sustainable purchasing processes.
  - **Responsiveness:** To continue to develop stakeholder engagement programs and ensure feedback informs business planning.

### Our comments



The Co-operative Group has produced an excellent CR report. As a co-operative, the Group considers CR a key differentiator. Of particular note in the present report is the Group's commitment to the AA1000 standard, which is effectively used by the external assurance providers to assess current sustainability management and reporting processes and thereby define planned improvements. Although the Group has chosen not to report in accordance with the Global Reporting Initiative, it has developed a clear set of key process and impact indicators against which it reports performance in each of the business areas.

By the Group's acknowledgement, there remains much work to be done in embedding, consolidating and integrating its CR program. This first consolidated CR report is an early part of the process of integrating what was a disparate collection of separate operations. Some business units (notably the Co-op Bank) are currently more advanced in their approach to CR than others. The Group's commitment to further stakeholder engagement in the coming year will accelerate this process.

The report is available at: <http://www.co-op.co.uk>



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