

VV-Good Index Methodology

An introduction to the VV-Good Index and the methodology behind it, including key calculations and practices.

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1. OVERVIEW OF THE VV-GOOD INDEX

Vertigo Ventures' mission is to support organisations to be more accountable for their impact through the transparent reporting of social, financial and environmental performance. Vertigo Ventures recognised that business sustainability depends on the transparent knowledge of an organisations' overall performance. Based on this insight, our analysts thoroughly scrutinised annual reports and sustainability/CSR/GRI reports to collect data and benchmark the impact of companies in the pharmaceutical sector. Recognising that such analysis is seen as esoteric and inaccessible to stakeholders beyond responsible investors, we then selected indicators and developed a performance ranking that is simple and readily understood and could be used to aid decisions about who to buy from, work for, as well as invest in. This was the foundation of the VV-Good Index. The VV-Good Index transparently compares organisations within a sector based on their financial, social and environmental performance. This first VV-Good Index profiles the top ten global pharmaceutical companies.

WHY ARE WE DOING THIS AND WHAT ARE WE TRYING TO CHANGE

From reading our first Corporate Responsibility reports, whilst engaging in social enterprise at university, we felt it was near impossible to compare organisations based on their social, financial and environmental performance. Vertigo Ventures was founded to support companies to understand and transparently report their impact. Part of the inertia in sustainability is caused by a lack of information about performance. If companies can transparently see where there are gaps and if they know there are consequences for poor performance, then there will be a shift in resources to fix it. What we set out to do was to help make it easier for companies to determine what the key indicators are to report on and to then share that data through their annual reporting processes. Global companies have the capacity and the scale to impact on social, environmental and economic factors. They can have measurable effects in tackling key challenges such as the Millennium Development Goals, laid out by the United Nations.

Vertigo Ventures aims to show clearly the links between a company's activities and impact in order to encourage more responsible business practice and proactive development of sustainable opportunities.

We look to collaborate with organisations to use the information compiled by Vertigo Ventures to embed sustainability performance measurements to support a sustainable future. We would like to see a table of relevant impact indicators and performance data to be included in every sustainability report, using a set of core, agreed, sector specific indicators that all organisations transparently report on in a consistent way in line with efforts to improve integrated reporting by 2015.

SUSTAINABILITY AREAS COVERED

Vertigo Ventures focuses on sustainability performance which we define as working to achieve the below aims:

- 1 accomplishing financial sustainability
- 2 proactively nurturing the environment
- 3 looking after its stakeholders (external e.g. local community and internal e.g. personnel)

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In line with the above, the impact indicators used in the VV-Good Index seek to touch on the below principles:

Organisations should:

- promote a good business environment to promote growth as outlined by the [World Bank](#). Example indicators include references to community investment, health, education and safety
- invest in innovation for long term growth as noted by [Accenture](#). Example indicators include references to gearing and liquidity
- create products/ services that are sold at a profit, as shown in this example by [Harvard Business Review](#). Example indicators include references to sales revenue, gross profit margin, research and development
- incentivise high performing employees to generate sales as outlined by [Accenture](#). Example indicators include references to personnel productivity
- support their operating environment and natural resources to transform markets and support approaches to combat climate change, as highlighted by the [WWF](#). Example indicators include references to water, air, land and biodiversity.

2. WHO IS INCLUDED IN THE VV-GOOD INDEX

This first edition of the VV-Good Index is focused on the Top 10 global pharmaceutical companies by turnover in 2011. Vertigo Ventures will be looking to expand the number of companies which are included in the VV-Good Index next year for this sector.

The methodology behind the VV-Good Index is designed so that it can be used across sectors and industries and subsequent editions of the VV-Good Index will be published for other sectors. The VV-Good Index methodology can also be used internally by an organisation, for example, to benchmark performance of an investment portfolio or compare departments.

3. KEY FINDINGS OF THE VV-GOOD INDEX

CURRENT SUSTAINABILITY REPORTING CHALLENGES AND LIMITATIONS

From undertaking such an initiative, we have already seen that these issues in particular need to be addressed for the next iteration:

a. Lack of data - less than 10% of global companies reporting.

Reporting is increasing by about 1,000 new listed companies providing one report a year. However the Corporate Sustainability Reporting Coalition (CSRC) points out that over 45,000 publicly traded companies are required to disclose their accounts, and there are 80,000 corporations doing business across national borders and of these just under 6,000 publish a report. Source: [Corporate Register](#)

b. Lack of a clear and consistent approach to reporting sustainability impact

Internationally there is not a widespread agreed set of indicators for sustainability reporting that has been adopted, made more challenging for organisations due to the significant requirement variances across countries. This lack of coordination makes it hard to compare organisational performance as each organisation is reporting different indicators, leading to a lack of consistency in what information is being reported. The work of the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI) is looking to progress this.

In the UK, the government has been the first to push for mandatory reporting of emissions but it is not yet looking at expanding the scope of reporting. Such an intervention need not pose a threat to operations or create red-tape, however it will ensure that reporting is taken seriously and there are consequences for unsustainable practices. 'The new regulations will be introduced from April 2013. They will be reviewed in 2015, before ministers decide whether to extend the approach to all large companies from 2016.' Source: [DEFRA](#)

c. Data collection and the ability to make comparisons.

Where data is being disclosed, a lack of standards, glossary and criteria mean that the way the data has been collected varies between organisations. This means that data collection is not occurring in a consistent way across organisations and therefore the resulting sustainability reports do not tell the same story at each organisation. Furthermore the lack of standard reporting practises was highlighted by this case. Source : [The Guardian](#)

'The KPIs used by companies within the same sector, even if they use a sector-specific supplement (of GRI), are often not comparable. The recommendation is that GRI might review current sector supplements and consider updating them to ensure consistency of KPIs. Source: [Corporate Register](#)

d. Impact versus output reporting

Whilst a lot of information may be provided in a sustainability report, data on the performance of the activities is where there is particular scope for improvement as a lot of focus can be on activity (outputs) rather than the impact of the activity.

e. Reporting relevant impact

To ensure the sustainability report is a useful document, ensuring the material disclosed is relevant is key, as current practices see a wide variety of reporting approaches. Providing a balance between qualitative and quantitative information is part of that. From a quantitative perspective, disclosing data on indicators that are relevant across an industry with additional indicators that are relevant for a given organisation would support with making the sustainability reporting process even more effective as a strategic tool.

f. Attribution of impact

A key challenge with performance reporting and an area for further development which is particularly relevant for the social impact indicators is being able to attribute the impact. For example, if we want to look at how donations have reduced childhood mortality we need to be able to determine what factors contributed to that and what proportion was from the organisation's donations and activities specifically versus other factors. There are existing approaches that may be a useful starting place for external auditors to determine what that contribution was.

g. Time lags

The time delay in releasing the sustainability reports is a key challenge in ensuring the data is relevant for onward strategic use by the organisation. (The latest sustainability reports we could use for the VV-Good Index were from 2011). By running reports on a more routine basis, the information is more useful as part of its key decision making activity.

The VV-Good Index is a tool to support current impact reporting, we recognise that this is part of an onward journey towards greater consensus and transparency.

KEY COMPONENTS OF THE VV-GOOD INDEX

- The VV-Good Index is impact focused. It calculates an 'Overall Impact Score' for each company based on its performance on an indicator against the other companies in the index.
- The VV-Good Index is publically available for interested parties to view. It is targeted towards the companies featured, regulators and wider society to provide key performance analysis of an organisation. The results can be used to aid views on the risks and opportunities for a company as well as decisions on where to buy from, where to work and even where to invest.
- The methodology developed by Vertigo Ventures behind the VV-Good Index, allows for the index to be repeated across sectors and industries.
- The VV-Good Index also takes into account social, financial and environmental performance.
- The methodology was aimed to be straight forward and robust; therefore it can be easily repeated and understood by a variety of audiences.
- Annual and CSR/Sustainability/GRI Reports have been used as the key data sources only.

4. HOW HAVE WE DEVELOPED THE VV-GOOD INDEX

CONTRIBUTIONS

Since the inception Vertigo Ventures has shared its progress with a cross-section of people from a variety of sources to help build on the existing good practices that are generally accepted. The input received has been greatly valued and Vertigo Ventures would like to thank the following individuals in particular for their contribution. In their own way, each person has helped shape our thinking and the result of the VV-Good Index as it stands today. We hope that people will continue to feed into it so that it can continue to grow and be the source of information for people worldwide. With this in mind, details of forthcoming webinars are available on www.vertigoventures.com

- **Industry/Sector professional Members association**
 - Royal Pharmaceutical Society
 - Novartis, gsk and Merck all responded to our email invitation to provide input into the Index
- **Professional services body**
 - Institute of Chartered Accountants for England and Wales
- **Ethics organisations**
 - Institute of Business Ethics
- **Sustainability academic**
 - London Business School
- **Leading individual from an international body**
 - IFC World Bank
- **Corporate expert on launching indices**
 - Former Executive Chairman, IBM
- **Professional Services firms**
 - New Philanthropy Capital
- **VV-Good Index Partners**
 - Fox Advising
 - Environmental Monitoring Solutions Ltd
 - Grant Thornton

INDICATORS

There are impact indicators listed that cover social, financial and environmental areas. We have sought to build on the existing good practice that is out there, therefore:

- The social indicators have been developed referring to the United Nations Millennium Development Goals which are a reference point often cited by the pharmaceutical companies themselves in their sustainability reports of the challenges facing society. Fox Advising also reviewed the social indicators proposed.

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- The environmental indicators have been inspired from the Carbon Disclosure Project and the Global Reporting Initiative as these are already widely recognised by industry. Environmental Management Systems also reviewed the social indicators proposed.
- The financial indicators include references to the existing accounting standards and IRIS indicators. We also realised that the indicators referred to in a Profit and Loss account and Balance Sheet were mainly output focused. The financial indicators have been reviewed by Grant Thornton.

Overall we have also referred to the Global Reporting Initiative guidelines and to the work of Mary Ho whose work on Socially Responsible Indices provided a further reference point as to which impact areas were relevant from an investor view point.

Abstract of thesis entitled: Socially Responsible Investment Indices in Asian Markets: Merging Stakeholder Theories with Social Construction for Improved Index Construction Methodology

Submitted by: Ching Ching Mary HO, for the degree of Doctor of Philosophy at The University of Hong Kong

STATEMENTS FROM CONSULTATION WITH SUSTAINABILITY EXPERTS.

“Fox Advising – impact measurement specialists have verified Vertigo Ventures social indicators and their weighting system.”

Steven Fox, Project Director, Fox Advising

“Environmental Monitoring Solutions Ltd have reviewed Vertigo Ventures Good Index indicators and weighting classes and have provided feedback based on our knowledge and expertise within the environmental arena.”

Rebecca Chapman, Consultancy Manager, Environmental Monitoring Solutions Ltd

With support from:



UNITS

When our analysts collected the data, it became clear that we would have to make some conversions in order to be able to compare the data like for like as companies report data in different units, for example, not all organisations report their financial information in the same currencies as each other. Therefore we found that we had to convert between units so that all the data was in the same unit and then secondly that it was of the same magnitude.

Financial units

Financial data was reported in US Dollars (USD), Swiss Francs (CHF) or Euros (EUR). For consistency purposes, the exchange rate was taken on 31-December of the year in question, in line with the annual reports.

Currency Conversion/ Year	2009	2010	2011
EUR/GBP	0.8998	0.8567	0.8379
USD/GBP	0.6201	0.6465	0.6471
CHF/GBP	0.60486	0.68707	0.68844

Environmental units

Environmental data was also used in the reporting of the same indicator so we had to convert units here as well. The following conversion factors were used.

Units	Value
Tonne/KG	0.001
TJ/GJ	0.001
petajoules/gigajoules	1000000
BTU/ gigajoules	1BTU=0.000001055056 Gigajoules

5. HOW THE VV-GOOD INDEX WORKS

DATA SOURCE AND TIMEFRAME

The information used in the VV-Good Index is publically available about each company via its annual report and sustainability/ corporate social responsibility reports. As companies have started reporting at different times, we have looked at data from 2009, 2010 and 2011 to determine the performance of the firm year on year as well as the absolute values. Unfortunately at the time of publication, 2012 Sustainability/ Corporate Social Responsibility/ GRI reports are not available for some of the companies listed. We have used these two data sources only to provide a consistent data source to compare the company's performance.

APPROACH



The linear model of impact presented in Hart et al. (2009) is indicative of many of the models presented in literature and recognised by various organisations around the world. It is this process that Vertigo Ventures started with when it began creating the VV-Good Index from the VV-Impact Metrics methodology three years ago.

For each company featuring in our VV-Good Index, we looked through their annual and corporate social responsibility reports to find the data for that exact indicator (impact metric) in 2009, 2010 and 2011. We then took the absolute value and the percentage change year on year for each impact metric. Where necessary, absolute values were converted into GBP where the currency was not already in GBP and the exchange rate for the time of publication was used (see section 4). For the environmental indicators, consistent units were used as well and data was converted as appropriate so that it was comparable.

We then created an indicator weighting system to reflect the depth and breadth of impact. The initial data was then emailed out to the companies in December 2012 for their review and verification. Having completed the online platform and methodology we sought assurance from third parties to review our work.

In the table on a company's profile it shows the 'Percentage change' on year on year performance and the Impact Metric Score. The Impact Metric Score for this indicator is then compared to all the companies featured to determine the Average Impact Metric Score and the Best Impact Metric Score across the companies featured. Finally the company's performance on that particular indicator is ranked against the other companies featured. The higher the ranking, the better the performance against their peers and/or competitors.

The Impact Metric Scores are then added together and divided by the total possible score which is the total best score a company could achieve. The social performance, financial performance and environmental performance of the company shows the company ranking according to the company performance on the indicators in these individual areas. Each has their own table labeled 'Social Impact Ranking, Financial Impact Ranking and Environmental Impact Ranking' respectively. This is to show how a company has performed in each of the impact areas.

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In the Overall Report, the 'ranking' reflects the overall ranking of the companies based on the combined score of their social, financial and environmental performance against their competitors.

ACCOUNTING FOR MISSING DATA

Missing data could play a key part of the scoring as a lot of non financial indicators in particular may be not be disclosed by all companies. Therefore we have taken this into account and provided a 'Disclosure Rating'. The 'Disclosure Rating' focuses specifically on disclosure of data relating to the indicators. It is designed to take into account not only the number of indicators missing data but also the value of the indicators missing through including the weighting of the indicator into the Disclosure Rating.

Disclosure rating

Where there is no data provided by the company on the indicator, it says 'no data' in the table. This is important as it highlights what indicators companies are reporting on. As we are keen to encourage disclosure, there is a Disclosure Rating which shows how well the company has been disclosing this information. Therefore, even if the performance is worse year on year, it is better to disclose it. Here is our table for the Disclosure Ratings with an example:

Reporting: Percentage of indicators with data reported on	Disclosure Rating
>0.95 (95%)	AAA
>0.85 (85%)	AA
>0.65 (65%)	A
>0.45 (45%)	B
>0.25 (25%)	C
>0.0 (0%)	D

6. WHAT IS NEXT

- Webinars to discuss the VV-Good Index more fully with interested parties.
- Engage in further consultation on what Pharmaceutical companies could be doing next and how this feeds into the next VV-Good Index as well as existing practices for other sectors.
- Vertigo Ventures will review the feedback and use it to determine which sector should be featured in the VV-Good Index.

The VV-Good Index is a tool for us to develop collaboratively to achieve improved sustainability performance disclosure by organisations. With this in mind, we would welcome your thoughts and collaborative opportunities to improve the index for future indices and use this first index as a starting point with which to grow from to help drive change in this space.

Please email us directly via hello@vertigoventures.com or please also see our events pages on www.vertigoventures.com to join us for a webinar to discuss the index further.

7. FAQs

Will the indicators remain the same each year?

In addition to the existing measure, we expect some potential annual changes to the indicators included. We are keen to hear what other indicators people believe should be included for next year. The indicators chosen are normally reported on by at least one of the companies and/ or reflect an important area where greater transparency is desired.

Which sector are we looking at next?

We are keen to hear your thoughts on which industry sector we should be researching for the next VV-Good Index, please email hello@vertigoventures.com with your views.

Are any of the companies featured your clients?

No

How is Vertigo Ventures financially sustainable?

Without our client work the VV-Good Index would not exist and these benchmarks are needed because they hold organisations to account. The only way to make sure this stays around was to set up an organisation so that the work can continue past us. The only way to ensure longevity was to set up a model delivering strategic and sustainability consultancy with organisations across multiple sectors.

How have we provided assurance?

We have consulted with independent experts on each of the impact areas who have reviewed and verified our indicator weighting system, units and definitions. They have also provided statements to that affect.

Social indicators- Fox Advising

Environmental indicators– Environmental Monitoring Solutions Ltd

Financial indicators– Grant Thornton

How have we determined what indicators to include?

Vertigo Ventures has used as guidance the internationally recognised reporting guidelines such as the United Nations Millennium Development Goals and Global Reporting Initiative as well as consultation with industry experts. Please see the Impact Indicators section above.

Who is this for?

Predominantly for companies featured in the VV-Good Index and those who are looking to improve their sustainability performance.

However, this is aimed to have broader appeal to professionals because in order for companies to become more sustainable employees and the eco-system of suppliers all need to be speaking the same language.

Why is this VV-Good Index a sector specific rating?

There is a 'core' set of indicators which are considered important for all organisations to be reporting on and a 'tailored' set of indicators which are most relevant to the sector. Each sector has additional specific areas that are important to them. Therefore, precise environmental, social and financial indicators need to be included that are relevant for that sector.

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How are we getting at the 'real story' because we are using publically available information?

The key information should be disclosed in one place –either Corporate Responsibility Reports or Annual Reports. Also if the information is public, the company is more likely to be providing accurate information, creating a higher standard of accountability due to internal checks that you would expect to take place before disclosure.

How do you ensure you reward performance and not disclosure?

We are focused on measuring performance and rank the companies based on performance. Disclosure is a separate score provided for each organisation.

Why did we decide not to use other ratings as part of our VV-Good Index?

The VV-Good Index starts to address previously missing analysis on sustainability performance using data in Annual and CSR/GRI reports.

What is the role of Advisory Panels?

We are a collaborative organisation that seeks expert advice to guide and shape our work to deliver the most relevant results.

How does the VV-Good Index fit in with other indices/ ratings systems?

This is the first VV-Good Index which starts to fill the gap that we see in other indices which is analysis on sustainability performance using data in Corporate Social Reports and Annual Reports.

Are you looking to do further indices?

Yes and we are keen to hear your thoughts on which industry sector to look at next. Please email hello@vertigoventures.com with your thoughts.

What do you aim to achieve?

We aim to collaborate with organisations to use the information compiled by Vertigo Ventures to embed sustainability performance measurements to support a sustainable future. We aim to see a table of relevant impact indicators and performance data to be included in every sustainability report, using a set of core, agreed, sector specific indicators that all organisations transparently report on in a consistent way in line with efforts to improve integrated reporting by 2015.

How does it fit in with existing practices?

We are keen to collaborate and build on existing practices that are looking to improve sustainability reporting and impact performance. We would be pleased to share more of our work in this space with those organisations as relevant and appropriate.

For further information please contact:

Laura Fedorciow or Bokani Tshidzu

Email: hello@vertigoventures.com