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Generali Insurance Company case of study

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ABSTRACT

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Sustainable Finance and ethical/corporate social responsibility
The new paradigm:
Generali Insurance Company case of study

Thesis directed by Associated Professor Maurizio Fanni

With the globalization Businesses are getting a lot of power and they are more influence companies in the society than before. Business malpractices have the potential to inflict enormous harm on individual, communities, and the environment; the demands from all stakeholders to be a business to behave ethically greatly have been increased at this time. Moreover, ethical infractions and abuses of power are presented in business and affect the corporations reputation and as well as societies. There are needs to be a call for responsible and sustainable corporate behaviour. This corporate behaviour can create a competitive advantage and will generate value, social and economical value. This thesis will be presented such an alternative approach.

This thesis presents an approach of the new paradigm. It is an integration of the 3 dimensions: ethical, corporate social responsibility and sustainability that generate social and economical value. The social value is for present and future generations: when corporations are helping development communities, poverty reductions, increased standards of life and education, increasing the work conditions and possibilities of employ’s companies, communities and other stakeholders. Economical value has many benefits to a corporation such as: decrease reputation risk; access the competitions of financial market, fidelity with customers and employees, increase firm’s reputations, reductions of cost and others.

This research will try to answer some questions such as: what is the business of business and what is its social responsibility? How this responsibility is applied in the field of finance? How this corporate social responsibility is measured? And does this CSR affects the share price value of a company?
The methodology used is a review of literature about Business ethics, CSR, SRI, ethical rating, sustainable reports, model market, and events studies. A case study of the Italian Insurance Company: Generali Group is presented. In this case study, it will be analyzed: (1) The Generali ethical, CSR and sustainable compromise – The integration of these three dimensions- and (2) how this information on CSR affects Generali Insurance’s share price value.

In order to measure the effects of the three dimensions –ethical/CSR/sustainable in share price, it is conducted an event study, which measure change in share prices based on the announcement of events. In that way, it is possible to determine if share prices that reflect firm’s financial performance are affected by public information of ethical, environmental, social and economical performance. Particularly, it will be measured the effect of Ethical/CSR/sustainable events of the Generali Group Insurance group in its share prices. Moreover, for this reach, it was consulted available information on the web side and sustainable reports regarding to Generali Group ethical/CSR/sustainable compromise. Additionally some informal meetings were taken place with, the Director of Sustainable Department in Generali Insurance Company in Trieste, Marina Donnato in order to clarify several issues.

The conclusion of this research is that the business of business is to be ethically, CSR and sustainable. It can be extrapolated to sustainable finance; in this way business will generate social value and economically value. The economical value is a consequence of the social value generation. In the long term, social and economically value will converge. Moreover, in the finance field this integration of ethical, CSR and sustainable is necessary: for instance Social responsible investments (SRI) and social finance - micro credits focus on satisfactions of stakeholders.

Other conclusion is that Generali is an Insurance company with high standards in ethical, Corporate Social responsibility and sustainability and big social concerns. It is very difficult to generalize about the relationship between CSR and profitability. Ethical/CSR/sustainable is consistently with the long term maximization shareholder value because for a company acting CSR represents a significant value for investors, company can be perceived as an ethical, CSR, sustainable. It perceptions affects positively his reputation more in the lung term. In the short time it is less impacted. The analysis using events studies methods and model market showed that ethical/CSR/sustainable news about Generali Events that not generate very significant abnormal returns different from zero. However some of these were positive. It could be
interpreted as the market is responding positively to the news of ethical/CSR/suitable issues. But also it could be that investors are not very well informed about ethical/CSR/Sustainability and in SRI. However the ethical/CSR/sustainable compromise generates more value in the run term because of company reputation, and other benefits as employee and customer’s fidelity. Other conclusion is a way to measure CSR is using ethical rating.

This document present an introductory part, Chapter 1. Chapter 2 gives a framework of the ethical issues of corporation’s operations and covers the following topics: MNCs Business ethics and Social responsibility, business ethics, mainly the debates made by Hoffman, which is related to ethical dimensions of the making decisions in a framework of business operation’s ethics systems, The topic of corporations operating in third world countries general overview, and General Standards of Behavior -Code of Principles and MNCs. It is important to clarify that the values and principles in Corporation, Medium, and small enterprises, the ethical principles, values and ethics are referring to same aspects, (human rights, environmental, social, economical aspects). But in this research only the ethical approach for Corporations will be considered.

Chapter 3 presents the analysis about: what does it mean corporate social responsibility (CSR)? what is the responsibility of the business?, For this scope, the chapter covers the following aspects such as: The meaning of corporate social responsibility, the concept of CSR based on the definition of the space between the law and social expectation, the expectation of stakeholders and incorporating of identity in the sustainability strategy CSR, the evolution of the concept, the traditional ideology and modern ideology of CSR and why the concept is changing, corporate social responsibility benefits, corporate social responsibility international perspective.

In Chapter 4, it is analyzed the following issues: why the finance a new paradigm is necessary, what ethical finance it about, based on concepts such as CSR/SRI and ethical sustainable finance focus in two levels: Macro level and Micro level. The Macro level is focus to the topic of (1) Social Responsible Investments -definitions, growing, background, some trends and so on- Sustainability. Other areas and instruments of ethical finance in a macro level are presented such as: (2) Ethics /CSR and financial sectors, Sustainable index (stock exchanges), (3) Cleantech Venture capital, (4) Financial services, (5) Institutional investors, (6) International institution will be analized. The Micro level make reference to the (7) Social Finance and (8) micro credit issues: In chapter 5, It is analyzed how social responsibility is measured and
monitored. In addition, some other topic such as: CSR and ethics rating agencies, ethics rating methodologies, rating agencies in practicing are discussed.

Chapter 6, It is discussed how the Generali insurance company presents his CSR/ sustainable compromises. This chapter defines the event to measure the CSR impact on the company value (share value in the short time). Some aspects of Generali Code ethics, values, strategy, CSR initiative (information included in CSR reports and websites) are analyzed.

In Chapter 7, an analysis is carried out to verify if the share prices that reflect firm’s financial performance are affected by public information of environmental, social and economical performance. In order to measure the effects of CSR on share price, an event study is carried out which measures changes in share prices based on the announcement of events. Particularly, it will be measure the effect of CSR’s events of the Generali Group Insurance group in its share prices. Finally, conclusions, suggestion- recommendations and issues of further research are discussed.

Keywords:

Ethical, Corporate social responsible (CSR) dimensions, corporate sustainable report, corporate wealth-stakeholders, Social responsible (SRI), ethics rating, and events studies and market model,
DEDICATION

I dedicate this thesis and the past of years of work to my husband Leonardo, my family and Professor Maurizio Fanni. Without their support and patience this work will not ever be completed.
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Chapter 1

1. Introduction

The globalization factor makes Businesses very economical powerful entities. They are more influence companies in the society today and this power is expanding trough nations. Business malpractices can have negative impact and cause enormous harm on individual, communities and the environment. The demands, from all stakeholders to behave ethically, are increasing today. Moreover, ethical infractions and abuses of power affect the corporation’s reputation and increased costs for them. There is a need to behave responsible and sustainable corporate behaviour. This thesis will be presented such an approach.

In order to achieve a Sustainable Global Economy, it comes at a pivotal juncture. US President Obama has said that addressing a "planet in peril" is a top priority and it is an international concern. The world is at risk, the credit crisis makes it crystal clear that the capital markets must eschew "short-termism" and adopt new approaches favouring long-term shareholder value and the planet's future value for present and future generations. By re-enforcing ethics continuously in companies and in managers, focus on social responsible investments, thinking in reducing the global poverty and so on, it will possible to create a better economy. Moreover, by setting new standards for sustainability leadership, by accelerating 'green' innovation and by changing the rules of the game, it will be possible to create a place that is liveable, and safe for everyone. It is a new challenger and new paradigm.

1. 1 Globalizations and Ethics Business

It is important to see that the factor of Globalization has a big impact for business; it is an issue of expanding development of the world economy. It has benefits on economic growth, global welfare, democracy and world peace. However, globalization can be seen as a positive fact. In the context of business ethics, it plays a crucial role in the view of Corporations, multinationals. They are accused of exploiting workers (less developed countries, (LDCs));

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1 Planet in peril –planet in trouble-
they destroy environments, and abusing their economical power. In this way, in the globalization process, Corporations need to define and legitimize what’s “right or wrong” and go further to the moral compromise that leads to their “responsibilities, social responsibilities” of their making decisions behaviour and operation.

Stronger ethics at business building and reinforcing is a call for action. Today, the financial crisis is a case of ethics, moral an issue of mortgage crisis that is revealing unethical business practices; immoral practices related with the loan in international banks -lack of transparency in the loan process, and transferring the risk outside of the United States over regulation could complicate and confuse- the ethics are going down, “declining work ethics to the increase in white-collar business crime, even within our government” (Hoagland, 2008). A re-built strong culture/ethics climate of ethics and financial regulation to balance are needed based on strong ethical principles. All of these ethical problems are problems of managers who run the companies, problems of ethics, moral, problems of regulation and so on.

The ethics is the alignment that gives directions to organizations, and in that way, it is possible to talk the ethics of businesses when organizations make ethical decisions, ethical decisions and operate. Organizations should work daily, reviewing, remembering, and reinforcing the ethical compromise. Wal-Mart, The US retailer has been continuously accused of having a low ethical standards/CSR, but recently it is reforming and changing this imaging in the way that it is asking for very high ethical standards in their suppliers in China and putting plans to audit producers in order to control their ethical compromise. It announced that in Beijing it will require manufacturers supplying goods for their stores to adhere to strict ethical and environmental standards (Rosenbloom, 2008).

In organizations people talk about ethical principles as guidelines. Those principles are standards or rules describing the kind of behavior for an ethical person, ethical business, and ethical society in which they either should or not should engage (Hoffman, Frederick, Schwarts, 2001). Those principles help to decide when businesses are facing different situations, to determine how to act and address their choices. This ethical commitment becomes formal in the form of a code of conduct, conduct of ethics, ethical principles, company values, and other important aspects such as mission, corporate governance, and so on that give the company identity. It is important to establish the compromise on ethics. However, to measure this ethical behaviour needs an international index for example: an ethics rating, sustainable index, sustainable reports and so on.
1.2 Scope of the thesis

This research is addressed to analyze a new paradigm in the field of finance. It is regarding a business ethics, Corporate Social Responsibility (CSR) and sustainable finance. The term of sustainable Finance, the presence of corporate social responsibility (CSR), is also known as ethical finance, business commitment in finance, Social Responsible Investments, SRI, and so on-. Corporate social responsibility (CSR) looks at how firms treat their stakeholders, what does it mean business ethics/corporate citizen/ identity, analyse their impact in communities, human right, and human resources commitment. Moreover, CSR analysis involves social responsible investments, (SRI), environmental, economical, philanthropy, poverty reductions, analyzing the triple bottom line of social, environmental and economical; aspects that are incorporated in the Business sustainable strategy and determine how those businesses operate. Corporation needs to satisfy stakeholders expectation creatively, beyond but supporting in the law.

There is much literature that focuses on CSR, SRI, customers, employees, and natural environments in business ethics, ethical funds, and how to measure this ethical corporate compromise. In this investigation, it will be used some aspects of the literature of CSR and SRI for example: Hoffman’s business ethics ideas and, International principle guidelines form UN, ODCE and EU, international ethical agency methodology and other international indexes.

This study will try to respond to some key questions such as: what is Corporate Social Responsibility (CSR) about? What CSR means in finance? Why this corporate social responsible is important when business operate? Can corporate social responsibility measure by ethics rating and how? Does CSR pays? Does corporate social responsibility affect the share value of a company in the short run? Some aspects that have a relationship with those questions such as: business ethics, the role of those stakeholders, corporate social responsibility ADD value for the firms in term of benefits but also, the impact of the CSR’s firm has on the share’s firm values, international ethical principles and guidelines and SRI, are analyzed.

This research points out that the umbrella of any kind of business operations is the ethics, the structure in business ethics that are supported in the values, principles, of ethics that with others elements determine the identity of the firms. In this research it is say that this kind of business will be recognized for their ethical identity, they will have ethical climate, and their operations and decisions making process will be supported in ethics in side and out side of the
organizations. Organizations will know what is wrong, right and responsible in their operations, because they have moral compromise. They will know that the responsibility of the business is not only focus on profits (stock holders approach) but also others stake holders need to be considered. In that way, organizations are economical, social and environmental responsible – sustainable- they have compromise with presents and further generations. The 3 dimensions: ethics, CSR, sustainability are interconnected.

Some aspects of a methodology used by AEI ethical rating and other aspects of other methodology that is focus in international ethical standards from The UN, ODCE and EU guidelines as FSTE good index, and Dow Jones Index and literature will support this analysis.

This investigation presents a specific case study: “Generali Group Insurance, S.p.a” company Italian firm and its compromise in ethics/CSR/sustainability is analyzed. Based on this information, a study on events is presented. Some important points that characterize these ethics/CSR/sustainable commitments are selected (events-sustainable events of Generali Group) and base on that information, some specific aspects of the Generali ethics/CSR/sustainability are analyzed in order to determine if this ethical/CSR/sustainable commitment pays in the short term. In others words, an analysis is presented to determine if the share price of Generali firms is affected by the ethical/CSR/sustainability Generali compromise news in the short time. For that analysis, event studies are used and the model market approach will be considered. Moreover some information from the data bases as Bloomberg, Yahoo, Sole 24 Ore news and Lexis Nexis are also considered.

1.3 Ethics/CSR/Sustainability

Today, most companies are facing, or will soon face, the challenge of maximizing profits in a world increasingly focused on maintaining social and environmental capital, as a voluntary action. Companies and financial companies are facing this challenge, moving beyond it and taking an active role in identifying the best opportunities from this sustainable development. They are changing the role of the financial sectors in sustainable development. They are linking the core business strategy to sustainability, and they are identifying key issues improving their strategies environmental and social performance.
Financial corporations in the sustainable framework are practicing voluntary behavior and action to improve society in which they operate and manifest their Corporate Social Responsibility (CSR). This (CSR) initiative, according to the green book of the European Commission -European community, July 2001-, is defined “as voluntary firm integration of the Social and environmental concern in their commercial operation and the report with the part interested”. The phenomenon has a foundation in the Anglo-Saxon initiative and is gathering very important attention in the global economy. In this way, it is considered that organizations not only are paying attention to the share value creation but also, they want to be industrially competitive, with concerns about corporate wealth -considering all groups of participant stakeholders in their operation (present and future generations)- generating Additional Value (AV). Organizations (big companies, corporations) can be sustainable with ethical/social responsible compromise: incorporating a sustainable strategy, a set of principles and values that create a framework for their decision making process.

The corporate initiative is communicated by corporations. They are manifesting their compromise but, it is important to look carefully at the way in which the organizations are making explicit this sustainable compromise through some instruments such as: Ethics code, a sustainable report, certification, politics of corporate governance, and additions to some of another regulations and guidelines.

When firms incorporate a sustainable strategy addressed to principles, values, in the process of making decisions under the social, economical and environmental framework, they explicitly manifest their compromises to their code of ethics, sustainable reports and others instruments. Corporations can beneficiate in financial terms when their share value increases, as a product of confidences. This factor generates better perceptions of transparency, the best ranking (best grading), a good reputation, the presence of a code and politics that affect positively the corporate value for all group of stakeholders.

Managers play an important role in the sustainable finance process, for that reason, it is necessary to consider these high ethical standards and integrity, as an individual; for these reasons, it is important to select an ethical CEO, anyone who ever wondered and care. Ethics are issues needed in the equity markets since the fall of Enron, Arthur Andersen, WorldCom,

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1 Sustainable: The term of sustainability means being in a strong or enduring condition. Sustainable company is a company that is desirable company or a desirable companion or competitor company in the markets according to SAM.
Adelphia; it was pointed out by Constance Bangly at Harvard University, HBS\textsuperscript{3}. He reinforces this remark with the discussion of some points from Tisher (Tisher, 2003). These scandals demonstrate not only a lapse of ethics but also an issue of the rule of law. This is the cost of management, reflected in reputation cost.

Ethical Corporate management and directors are ethically and legally required to act in the best interest of the corporation, not only maximizing shareholder value but also looking at the effects on employees, customers, suppliers, the environment, and the communities, in which corporations operate. Ethics needs a commitment to be selected. According to Insight investment, ethical performance best practices include: ethical investors have traditionally done more effective work with companies to encourage better corporate behavior, and are responsible for supplying channel management, incorporating human rights in their practices and so on (Insight investment, 2005),\textsuperscript{4} Mackenzie, head of investors responsible at Insight, said that “not only it is important the term share value creation, but it also determines the extend to which corporation deserve public trust and in turn, the extent to which the public should leave companies free to regulate their own behaviour (Insight investment, 2005)\textsuperscript{5}.

Companies have the right to make profit but also there are social entities that have a social responsibility. MNCs voluntary accept their social responsibility and adopt and practice international social principles and code (code of conduct\textsuperscript{6}) in order to help and improve the societies in which they operate. They report this initiative annually in a sustainable report. They have social responsible commitment that they want to make explicit, for example in Generali, its ethical code was published in 2004 and, in 2005, the first group sustainable report was published for 2004, until now -every year the report is published the sustainable commitment-.

This social responsible commitment is a benefit for the society, communities and for the MNCs. Additionally; there are several reasons for state, that there is a correlation between the practices of social responsibility by companies and profitability. This issue has been addressed in that direction. For example, as the European commission has declared that the Social responsibility


\textsuperscript{5} Ethical performance best practices, insight investment, autumn 2005, \textit{http://www.ethicalperformance.com/bestpractice/case_studies/insight_investment.html}, This page was consulted on 6/17/2006

\textsuperscript{6} Ethical code are a set of principles directions for corporations, they are a guide for behaviour of the corporation. To establish a Code is very important commitment to human right standards protection in business.
of the firm is an investment and not an expense (cost) for the company and, at the same time it helps as quality control. Therefore, companies which manage their social responsibility effectively tend to be managed well in other areas too, and good management is the single most important factor in corporate profitability and it generates value for the company, and adds value (aggregate value) for the firms and other benefits.

It is pointed out that this new paradigm in sustainable finance is putting behind the idea that profit is the unique fundamental firm’s objective, and that the firm acts responsible only through charity. In that way, a new integral concept is proposed focus on social, environmental matters, - Sustainable Finance (SF), Concept of social responsibility (SR), maximization of corporate wealth-. In this new approach Corporate Social Responsibility concept is integral part of sustainable strategy of Social Business addressing 3 areas: (1) social, (2) environmental, (3) economical.

Corporations are giving more formal aspects and present their sustainable strategies as groups throughout Sustainable Report. In their reports, they are presenting their: citizenship, identity, values, ethic code, internal control systems, guide of values, information about the company, strategy, financial and no financial performance, stake holder’s compromise, community improving, employees, customers, suppliers, governance aspects, and philanthropy. With this sustainable report, organizations are communicating that the main objective is not to increase the profit but also company value, maximizing of the share holder’s wealth but also to maximize the wealth of the other groups.

The analysis of the financial and responsibility is a new paradigm. In this document, a basic approach will be presented in order to understand how the finance can be more sustainable: (1) within a macro level perspective, according to Italian insurance companies; and (2) within a micro level perspective, where the topics of banking, ethical funds in terms of micro-credits.

The main objective is to analyze the Italian Insurance companies and to identified how they are dealing with corporate social responsibility challenges, in order to understand how financial sector is conducting its social responsibility, how the leader and board of director, investors, and all of groups have their compromise in sustainable finance, and to analyze if this CSR of Generali insurance Companies is affected the share price value in the short time thought an event study methodology.
1.4 Motivations

With the globalization, it is required an important review in the practices of financial and economical aspects, considering the development at the economical, social, and institutional level. Some reflections of this study are supported in the relationship between ethic and economy of the Nobel Price Amartia Zen (Sen A, 1998).

Moreover, the globalization introduces new risks that, as a result, globalize financial markets are more vulnerable and instable. Physiological and political factors affect share prices. All of them increase the interest for SRI, social responsible investments or ethical investments that regards corporate social responsibility. Therefore, the business objective is creating a long term (not only) shareholders value but also, considering that stakeholders value is paying attention to the dangers that the economics systems create.

The second motivation (for this alternative Corporate social finance, the new paradigm) is inspired on the International principles defined by Commission Brundtland of the United Nation in 1987, in which a sustainable development definition was provided: permit the satisfaction economically, environmental and social of the currently generation without comprise the future generation development, thinking in a benefit for all collectively not only in the individual benefit, and also in the international principles and guidelines proposal by UN, European Commissions, and OCDE. In this order of ideas, the finance should not only pursue an individual unique profit objective, thinking in the owners of the financial activity, shareholders should also pursuit a benefit collective thinking.

There is also an international level initiative (as international index as backmarkers) that used the same ethics standards in the sections of investments, and international agents are giving specialized ratings for classification and appropriate score share. This effort is proving that there is increasing interest of the financial markets for sustainable development. In addition, it is confirmed that there are statistics that demonstrate that between 1998 and 2003 it was a growth in the patrimony and number in the ethical founds index: (1) Domini 400 Social Index (at KLD), (2) Dow Jones Sustainability Group Index (DJSGI), (3) Ethical Index Global (EIG) of the company E Capital Partners, (4) FTSE4GOOD (US, Global, Europe e UK) of the company FTSE.

The following hypothesis will be verified in the followed chapters:
1.5 Hypothesis:

The hypothesis is based on the questions of what is responsibility of business? What is the responsibility CSR of Generali Insurance Company? Does the CSR affect the value of the company in the short time, or in other words, the share price company?

1. H1: The business of business is business or the business of business is sustainability and responsibility
2. H2: It is possible to talk about ethical/CSR/ sustainability in Finance
3. H3: Ethical rating is an appropriate way to measure the CSR, environmental, social and economical performance of a company.
4. H4: The Ethical finance of the Generali group is focus on values, principles, concerts, oriented to stake holders, but also, it tries to improve the society in which it operates – Integration of ethical/CSR/sustainability
5. H5: It is possible to confirm that ethical/CSR/sustainable behaviour affects the value of the firm (share value) and generates Add value in the short term.

Chapters one, two and three and will be oriented to verify the first and second hypothesis:
Chapter 4 will be oriented to verify the hypothesis 2
Chapter 5 will be oriented to verify the hypothesis to the hypothesis 3
Chapter 6 and 7 will be oriented to verify the hypothesis 4 and 5.

See summary descriptions of the chapter in the abstract
Chapter 2

2. Business ethics, social responsibility and sustainability

This chapter covers the following topics: MNCs Business ethics and Social responsibility. In this research it is considered that the lines and the core centre for corporations operations and behaviour are the ethical framework – set of values, principles- the ethical systems/ethical culture/climate. This ethical climate is the base structure in their making decisions process and makes corporations responsible. Moreover, Ethical culture/ethical climate with other compounded as mission, systems of governance, organizational structure, control of systems, creates the business identity.

In Corporation/Multinational Corporations (MNCs) and Medium, and small enterprises, the ethical principles, values and ethics are referring to the same aspects, (human rights, environmental, social, economical aspects). But in this research only the ethical approach for Corporations will be considered.

Additionally, in this chapter some aspects are enunciated about business ethics, mainly the debates made by Hoffman, which are related to ethical dimensions of the making decisions in a framework of business operation’s ethics systems. This analysis covers, Corporations operating in third world countries general overview, Business ethics and globalizations, the nature of the corporation, General Standards of Behavior -Code of Principles and MNCs, Nestlé Case, Volunteer principles, multinational and countries ratification, the social accounting auditing/sustainable report, and the role of Influence public entities (Foundations).

Some questions that drive this research are: what are the relations between business and CSR? What is the relationship between CSR and finance and sustainability? Focus on if the statements if the business of business is business, or the business of business is business and sustainable? This research will be supported on a case study of sustainability. A company with very high ethical/CSR/sustainable standards and behaviour will be analyzed. This case is of the Generali Group Insurance Company

2.1 Business and Ethics
“Researchers in all managements specialisations have discussed and investigated the important role values play in personal and organizational phenomena,” (Agle Bradley R, Craig B Caldwell, 1999). Companies with ethics/values statements have been increasing over the past years. “Fortune Magazine reported that over 50% of US Corporations have values statements more that double of a decade ago” (Agle Bradley R, Craig B Caldwell, 1999). Values and principles are the centre core of business operations.

The term of ethics comes from the Ancient Greek world ethikos. It is the adjective of the ethos that means “custom, habit”. Ethics is considered the study of a values and custom of a person or group. The term covers the analysis and employment of concepts such right and wrong, good and evil, and responsibility. The ethics is divided into tree basic areas: (1) meta-ethics, this area is the study of the concepts of ethics; (2) normative, that is the study to how to determine ethical values, and; (3) applied ethics, this area is the study of the use of ethical values; that is the area that it will be most considered in this research.

Moreover, the term Business called, also a company, firm, enterprise, multinational, corporation is a legally recognize organization to provide goods, services to consumers. Business ethics is a form of applied ethics that examines that ethical principles and moral of ethical problems that can arise in business environments, and it is supported in normative ethics, how to determine ethics values. Those ethical values determine the ethical culture/ethical climate. Ethical climate that is originated when employees share values –employees such as: Managers, and employees in all hierarchical structure of the organization-. Corporate ethical culture is based on the values of the corporation’s founders and significant leaders. (Agle Bradley R, Craig B Caldwell, 1999). Business’s ethics, values, and principles are the bases and conductor lines for corporate social responsibility (CSR). Those corporate values are measure trough rating (Agle Bradley R, Craig B Caldwell, 1999).

The term of business ethics was started to be used commonly in 1970s but in the international environment “international business ethics” was emerged in 1990s. Ethics “refers to a systems or code of conduct based on moral duties and obligations which indicate how people should behave. It deals with the ability to distinguish what is right and wrong” (Hoffman, Frederick, Schwartzs, 2001) in the base of principles: -fundamental trust, fundamental law, and fundamental doctrine- There are many values to do with ethics” (Hoffman, Frederick, Schwartzs, 2001). Those ethical values are beliefs e.g. honesty and fairness which inherently concerns to what is good or right and the way people should act. In organizations people talk about ethical...
principles as guidelines that reflect, moral commitment. Those principles are standards or rules describing the kind of behaviour for ethical person, ethical business, and ethical society in which they either should or not should engage (Hoffman, Frederick, Schwarts, 2001). These principles help to decide when businesses are in different situation of dilemma, to determine how to act and address their choices.

In ethical business, organizations are systems with principles and values, as a reference framework in the making decisions process and in the definition of sustainable strategy. Values have impact on those processes. All of ethical values, principles and other components as mission, governance, and so on, should be toward to the strategy, suitable strategy focus on economical, social and environmental issues. See the following diagram. According to Agle Bradley R, Craig B Caldwell, there are several researchs that demonstrate that values have impact on the strategy for instance: (England, 1967), ethical decisions making and in the definition of the strategy which focus to stakeholders expectation. It is a CSR (Akaah & Lund, 1994). (Agle Bradley R, Craig B Caldwell, 1999). See the following diagram articulating the business ethics based on Values and principles:

**Diagram 2.1: Articulating the business ethics based on Values and principles**

*Principles*

Identity

Managers: Own values, UN, OECD, EU

Stakeholders: Strategy, Sustainability, Reputation

Expectations

![Diagram](image-url)
2.2 Values and ethical culture /ethical climate

The company values, when are shared by employees in all hierarchical levels, establish the ethical culture/ethical climate. According to (Agle Bradley R, Craig B Caldwell, “organizational culture is as being highly related to values” They mentioned that (Shein 1985), (Deal & Kennedy, 1982) defined culture as shared meaning, belief, and values with values at the core and (Tichy, 1982), Liedtka, 1989 defined organizational culture as share values. (Agle Bradley R, Craig B Caldwell, 1999). Others make reference that theoretical constructions of values relate to ethical climate (Victor & Cullen, 1988) and Corporate Social responsibility (Aupperle, Carroll & Hatfield, 1985) mentioned (Agle Bradley R, Craig B Caldwell, 1999).

Companies with those cores of values, beliefs, guide code play an important role in the society. Those companies improve the society in which companies operate. This ethical commitment became formal in form of code of conduct, conduct of ethics, ethical principles, and company’s values, shared by employees, creating an ethical culture/ethical climate/Corporate social responsibility and with other important elements such as: Mission, code of ethics, corporate governance, and corporate structure gives the company identity.

Ethical companies define currently, those asset of ethical principles, values, (intangible assets, that generate long term value), code of conduct, sustainable reports, that remark ethical decisions in social responsible/ sustainable way. In that way, corporations are ranked in an ethical ranking and monitoring, when they reach behavior under social, environmental and economics standards. According with this sustainable performance criterion, companies could be included and excluded from ethical indexes.

The ethics, -principles, values, international principles, to determine what is right and wrong- is the alignment that gives directions to organizations and, in that way, it is possible to talk the ethics business when organizations make decisions, ethical decisions and defining corporate strategy. Agle and Caldwell mentioned that to choose corporate strategy values, personal values of top managers are important determinants in this process (Agle, Caldwell, 1999).

From this part it is possible to conclude that the ethical part represents important guidelines for business, they are alignments that give direction and define the identity, the identity of the business with other elements as mission, corporate structure, corporate governance and so on.
Business identity-values are related to organizational cultural, share values, ethical climate, and are in the directions of corporate social responsibility (Agle, Caldwell, 1999), sharing meaning, share believes and values as core. Others elements are mission, corporate governance, corporate structure and so on.

2.3 Business ethical identity focus to CSR and sustainability

In the definition of the business ethical identity, top of managers plays an important role. The values of those management plays an important determinante issue for the ethical climate, organization culture, organization identity, sharing values, and in the definition the corporate sustainable strategy and making decisions process. Those managers make the bases for the creation of the corporation identity with other elements as mission, corporate governance, corporate structure and so on. This identity that is set sharing values, principles, that created the ethical climate, and others important components as mission, corporate governance, hierarchical structure make a business definable and recognizable. Theses ethical business components are reflected and are very important on the determination of the business reputation. Agle, Caldwell mentioned that an excellent organization performance is a product of share values; ethical climate/organization culture is a function of those share values, good benefit for the firms. (Agle, Caldwell, 1999).

Other important aspect that plays an important determinant in the definition of the firm’s identity -share values that create an ethical climate/organization culture is the global values/International principles, some of those international principles will be mentioned later in this chapter. Perhaps because of the globalization and business operation in international environments theoretical values/ principles definition is beginning to occur with regularity (Agle, Caldwell, 1999). The global/international principles are international share values conventions; standards of behaviour for corporations, countries. They are set up in order to establish a balance in the society.

When companies follow those international principles set up by: (UN, OEDC and EU) in their operation, “a integration of personal with the global and corporate values is the most important part” (Agle, Caldwell, 1999) in the definition on the business identity and those need to be incorporated in the ethical/CSR/sustainable strategy. Lack of strong share ethical/values/principles, not well -established company identity- is reflected in significant cost, reputational business risk/cost. Some corporations like Shell, Bp, Nike, Gap, Coca-Cola, JP
Morgan Chase, and other companies have been affected in their reputation because they have been acting in opposite way to ethical values. This is reflected in their reputation. An organization can be recognized by its identity as social, CSR, with ethical climate.

Corporative social performance has become a legitimizing identity for business and society (Rowley, Berman, 2000). Business follows the rules but goes beyond of that satisfying social expectations, this is CSR. This behavior is voluntary. On the one hand, a company has the obligation to follow the rules, law; this is a minimal guarantee of company responsibility.

On the other hand, a company should have an obligatory volunteer behavior to improve the society in which it operates generating value for the society for example reducing the poverty, improving the healthcare and acting ethically according with some international principles and ethical value, ethical components that determine the identity/citizenship of the business. Corporations have the obligation to work for social betterment further that the narrow perspective of economical, and legal requeriments only (Rowley, Berman, 2000) this reflects corporal values and moral corporate compromise.

According to the Generali Insurance Group, S.p.A, a company with high ethical values and Corporate Social Responsibility (CSR) is defined by a set of elements such Mission, guidelines values, structure definition, governance systems, ethical code, control internal systems and the privacy that are included in the strategy.

This identity has very important role and relationship with the group stakeholder. It is reflected in the sustainable strategy. There are several topics that are part of the identity: The values, principles, missions, systems of corporate governance, ethical code.

What is the Mission? The mission is defined such as the purpose of the business, the reason to exits and to be a business. According to About.com⁷, the mission “is a brief description of a company’s fundamental purpose. A mission statement answers the question, why do we exist?” for instance the mission of the Generali Group Italian Insurance Company, is describe as: to be one of the more important insurance around the world and financial companies in the global level, is focalized in the continental Europe over the market of the big potential development and that serves mainly to private customers and small and medium enterprises in the direction to the direct Life and damage insurance.

⁷ About.com: http://sbinfocanada.about.com/od/businessplanning/g/missionstatement.htm
Other important ethical component of the ethical identity of the business is the *Guidelines Values:* the values are core beliefs, guide or motivate attitude and actions in companies. These values improve to society in which companies operate.” (Hoffman, Frederick, Schwarts, 2001).

The group Generali sets guidelines values as: Value creation for shareholders, protection environment, professional valorisation of the human resource, transparency, local community development, vaporization of the, diversity, innovation and flexibility, to be proud of be part of the organization, be right and correct with the stakeholders. Values and principles are organized formally in ethical code, which “set up general principles about an organization's beliefs on matters such as quality, employees or the environment” source of definition from wikipedia.

The other important component is the *Structure* that is defined by the organization chart; see sustainable report Generali Group page 14. The fourth ethical components of the identity are the Governance, Corporate governance is the set of process customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

### 2.3.1 Crisis and Lack of Strong Values/Unclear identity

Lack of values generates crisis. The current financial crisis is an issue of ethics. This financial crisis is revealing unethical business practices; lack of transparency in the loan processes, and transferring the risk outside of the United States over regulation could complicate and confuse the ethics behavior is going down, “declining work ethics to the increase in white-collar business crime, even within our government” (Hoagland, 2008). Rebuilt strong culture of ethics and financial regulation to balance is needed based on strong ethical principles.

*All of these ethical problems are related to managers who run the companies. Some times they need to know clear that what is right could be the less profitable.* Who define the norms and companies principle are Managers and directors. In that way it is important to review the company’s values and ethics every day to remember and to be prepared to accept the consequences that might include turning down business, because managers and employees know it is not right, even if it is profitable.
During the last 10 years, business have experienced countless examples of what happens when positive core values and ethics are missing in the people involved in private and public organizations, in other words when business have loosing their values and principles. Business examples include Arthur Anderson and Enron. Individual instances can be read any day of the week from fraudulent business people to politicians. Individuals (managers) will have to be committed to doing what is right and not what is easy. In effective leadership, this is called making good choices and tough decisions.

Some of those ethical problems are explained very well in an Austrian movie “Let’s make Money”. It shows what is the world reality in this financial crisis where business is a model of “wining of few and losses of many”, that some times financial institutions move the money and investors do not know where is the money, MNCs invest in countries but in an unbalance benefits and they do not care about the issues of poverty reduction.

2.4 Business ethical identity and sustainable/CSR strategy

“The strategy is the leveraging of a firm’s internal source, capabilities and core of competences to accomplish the firm goals in the competitive environmental “(Hitt, Ireland, Hoskisson, 2001). CSR companies with CSR concerns search to put in the same directions their CSR strategies and their CSR/ethical identification. Their strategy is conditioned by their values, CSR identity, because companies have concerns about the 3 elements of sustainable/CSR meaning social, environmental and economical, with concern about stakeholder and their social expectation. “Corporate Social responsibility (CSR) may be integrated into firm’s process to create resources (assets) and capabilities that may lead to competitive advantage and superior economical performance” (Allen D, B & Husted B, W 2007) to satisfy stakeholders expectations. All of that integration should be made in the framework of ethics and values.

The manager is very important in the integration “Successful strategic management of CSR allows firms to take into account legitimate stakeholders claims, focusing and expanding work in those areas where competitive advantage can be created, while assigning appropriate allocation of resources to meet social needs” (Allen D, B & Husted B, W 2007) and also benefits of successful ethical/CSR/sustainable strategy is that encourage firms to seek additional ways in which social actions (moral concerns) also leads to profits. Generali Insurance Company is an organization that has sustainable strategy oriented to its values and incorporating it in its strategy: According to Antoine Bermheim – Generali Presidents: “Social sustainability is, in fact, not only closely connected with the values that have always distinguished the Group,
but I can say with rightful pride, that it is now deeply integrated into the company strategy and has become part of our strategic identity” Sustainable strategy.

Diagram 2.2 Sustanible development diagram (the three components of sustainability)

Source from wikipedia free source to use. The Interaction of the three "pillars" of sustainable development

![Diagram of sustainable development](image)

Today companies are incorporating and making publicly to their CSR/sustainable strategy, according to a survey conducted by KPMG, in 22 countries. This is the tendency in international environments (KPMG, 2008), see the following figure:

Figure 2.1 Companies with a publicly available Corporate Responsibility Strategy by Country

This source of information is used with the authorizations of KPMG, (KPMG, 2008)

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8 Three "pillars" of sustainable development http://en.wikipedia.org/wiki/Sustainability

9 The KPMG’s survey is doing every three year
In the first place is Japan with 85%, USA is in 5th place with 61%, and Italy 42% is in the 11th place.

**Figure 2.2 Companies with a publicly available Corporate Responsibility Strategy by Ownership**

This source of information is used with the authorizations of KPMG, (KPMG, 2008)

Listed in stock exchange is the more significant with 54%.

In that way the entire situation mentioned previously could be managed better with systems of ethical companies, defining CSR identity and integrated it to the sustainable strategy. It means
companies taking action, and to address ethical business, to define an ethical business identity/citizenship, this is a process that never ends and is continuum daily process. How? Reviewing the values statement of the business strategic business action plan, that needs to be continuously reinforced for the ethical business identity. It is important to be able to clearly describe the behaviors that managers and employees have and show in all interactions, internally and with customers. The sustainable strategy and the CSR identity should be in the same directions.

If a business does not have a Values Statement, it should create one and make the strategy, sustainable strategy in the same directions. It is important to review the values statements and strategy often, and to monitoring it.

2.5 Ethical decisions

There is an interesting analysis made by Hoffman, where the making decisions analysis of company’s process and people is based on principles, values, corporate moral and so on. Those ethical duties are real, important. They cover everything.

Hoffman made an important contribution to the (ethical theories) business ethics to considering in decisions making which is of the Golden Rule that refers “Do unto others as you would have them do unto you; and love the neighbours themselves”. In that way the remark of thinking in the others is important: creating social conscience is pointed out. Act and behave according you expect from other. It is a conception of reciprocity.

Organizations made decisions continuously, decisions that affect the firms and their stakeholders. Company’s decisions have impact in their stakeholders. The decisions of business ethics affect and have impact in their stakeholders: “since the is often probably to affect an entire network of people with different, it is necessary to carefully sort out by interests by determining in a systematic way which people have a take in the decisions” (Hoffman, Frederick, Schawartz, 2001). In that way reciprocity in business is presented. When business face decisions making process, it is important to consider some important points: (1) Considering corporate values and principles, (2) Considering impacts of Stakeholders (3) economical aspects.

Ethical making decision refers to a process of choosing which systematically considers and evaluates alternatives courses of conduct in terms of the list of ethical principles. The business
actions have some consequences in the own business and in the society in which those operate. Those consequences could be positives (benefits) or negatives (costs) consequents.

When an organization makes its decisions oriented to its objectives, they are organizationally rational oriented decisions. An organization that made its decisions in the framework of principles and values, and those values –moral compromises, toward to economical, social, environmental) is an organization that is stakeholder’s orientation decisions making. These kinds of organizations are made decisions organizational ethical rational. Their operation not only is oriented to economical goals economical (only maximising profits) but also social and environmental orientations. Their goals go beyond of shareholders interests, their decisions are made rationally. “Rationally means to be efficient in pursuit desirable goals”. A decision is organizationally rational, if it is oriented to the organization’s goals”. (Snoeyenbos, Almeder, Humber, 1992). In this case ethical/CSR/sustainable is the objective.

Generali Insurance Company is an oriented rational-decision organization to its goal – (CSR/Sustainable goals). This insurance company made its decisions beyond of economical interest, considering also its values and principles, sustainable strategy and sustainability aspects (economical, social, and environmental) and toward to improving the society in which it operates.

According to (Hoffman, Frederick, Schwarts, 2001) there are some important points to consider in ethical making decision.

1. The first task in this process is to make the differences and distinguish ethical form unethical responds.
2. The responds are not equal. Some times it is difficult to choose because there are many ambiguities and dilemmas. To choose or select implies that the actions will have some consequences.
A process of making dictions that systematically take into account the ethical principles tends to prevent unethical conduct and allows choosing the appropriate values.

1. Identify and distinguish no ethical behaviour
2. Choose between ethical behaviour appropriate one (according to international principles)
3. The responses are not equal
2.5.1 Ethical making decisions in business

Managers and employees make the decisions in companies: they should keep in mind that the right not always is the most profitable. Making distinctions between ethical/responsible behaviour and unethical is more difficult and complex that thought because there are so many real word situations with multiple interested parties involved with their values and interests.

Businesses face different situations and in order to make a decision a list of alternatives needs to be elaborated. A choice should be made, within this list, which responds to appropriate behaviour. To choose or respond in fact have consequences, positives or negative consequences, -benefits or cost-.

An ethical problem (situation) is characterized when some of the components suggest by values\textsuperscript{10} came into conflict.

A making decisions is a situations to solved systematic problem-solving which is a model to clarified the elements and issues involved in the problem, to generate possible solutions to the problem and to provided a frame work for choosing among those solutions, It present a especial benefit reaching in to resolve ethical related problems (Hoffman, Frederick, Schawartz, 2001)

- Systematic problem solving

This process of ethical decisions making includes seven steps:

1. Identified the Desired outcome
2. Define the problem
3. Examine Difficult and obstacles
4. Development alternative solutions
5. Select the best solutions
6. Delineate specifics steps
7. Identify reactions/reward

\textsuperscript{10}Values refer a set of beliefs or guidelines which motivated attitudes and actions. Many values there are not related to ethics. Ethical values are values which directly concern which what is good or right and the way should we act for instance: as honesty and fairness (Hoffman, 2001)
The decision maker should identify the desired outcome for the entire situation. In other words, the following questions need to be answered: (1) what it is attend to reach in the dealing with the problem, (2) when you reach the ideal solution what else you do not like to occur? (3) What is the ideal result?

When the desired results are understood, then proceed to define the problem asking the following questions: (1) the antecedent of the desired situation and the environment in which it occurs, (2) what cause the situation precisely, (3) who is involved in generating or aggravate the problem? (4) Who is affected by it? (5) When and where the problem occurred, (6) is this a short or long term problem.

When the problem is defined the difficulties involved can be analyzed.

After the problem is defined, it is important to analyze the difficulties involved in solving the problem. In order clarify future solutions, the following questions need to be answered: (1) the way the problem previously could not be solved by others (2) what are the financial cost, but also in terms of harm which may damage organization’s image. Moreover, it is important to analyze the obstacles that make difficult the solution.

After the identification of the first to steps, it is necessary to develop alternative solutions to the problem. In that step brainstorming or similar techniques are useful. It is important to avoid discard any solutions until a confirmation of that was examinee completely. Then choose the best solutions. Hoffman mentions that according to Henderson (1982) there are four factors related to business which can serve as checkpoints when ethical issues arise: goal, methods, motives and consequences. What are the goals of the organizations: what are the goals of the involved stakeholders, what are the motives of the interested parties, what are the value orientations that are reflecting organizations values? Hoffman mentions an article prepared for Harvard Business School, Kenneth Goodpaster, which includes a process for solving ethical issues. Goodpaster suggests that decisions makers should determine first the answers to the following two questions:

1. Who are my stakeholders, and what are precisely the ethical issues that must be resolved in regards to each stakeholder.

2. What are the critical ethical values and assumptions related to each of the stakeholders?
Considering the answers to these questions, Goodpaster recommends that they need to be considered through the light of three different approaches:

- Approach 1: What are the actions that give each stakeholder the greatest cost/benefit ratio? And what facts support these conclusions?
- Approach 2: What are the actions that can respect the rights of each stakeholder and ensure that they are treated fairly? What facts support these conclusions?
- Approach 3: Given the duties and obligations to each stakeholders which has priority? Why?

Analysing all these issues determines what is the decisions or plan actions. Then, it is important to delineate the specifics steps that will be required to put the solution you have selected into action, for each step, an indicator will be defined. Finally, reaction to the rewards for the solutions should be identified.

2.6 Business ethical educations

Ethics are learning, people learn ethics from family, teachers, managers employed, society organizations, business and so on, as a result most of people reach a adulthood with fundamental respects and with basic understanding for ethical values (Hoffman, 2001) and individuals like this will be part of the structure of organizations, employees, managers, directors and so on.

2.7 Nature of the corporation

What is the natural role of the corporation inside of the systems, to understand the nature, the corporation responsibilities? If it is viewed that corporation is a private owned enterprise designed only to make profit, this is a narrow prospective corporations have social responsibilities (Hoffman, 2001). It generates the statement about the business of business is business or the business of business is business and sustainable.

2.8 Reviewing and reinforcing continuously ethical principles in Companies

Organizations should work daily, reviewing, and remembering and reforming on the ethical compromise in order to improve and update ethical standards that influent their decisions.
The Wal-Mart, The US retailer, has been continuously accused for having a low ethical standards/CSR, but recently it is reforming and changing this imaging in the way that it is asking for very high ethical standards from it supplier in China and putting plans to audit producers in order to control their ethical compromise. Moreover, it announced in Beijing that it will require manufacturers supplying goods for its stores to adhere to strict ethical and environmental standards (Rosenbloom, 2008)

2.9 The factor of Globalization and business ethics

Businesses are important entities. They are entities with a lot of power. Today, they have more influence companies in the society than before; the factor of Globalization has a big impact for business. It is an issue of big development world economy. It has produced important benefits for economic growth, global welfare, democracy and world peace. The chairman of Goldman Sachs has talked of ‘the gospel of Globalization’ and has praised the increasingly interconnected world economy and its benefits for economic growth, global welfare, democracy, and world peace. However, no always the globalization is viewed as a positive fact. In the context of business ethics, it plays a crucial role in the view of Corporation, multinational. They are accused of exploiting workers (less in developed countries, (LDCs)); they destroy environments, and abusing of the economical power. In that way, the globalization process Corporations need to define and legitimize the “right or wrong” and their “responsibilities, social responsibilities” of their behaviour and operation in their making decisions, Ethical making decisions.

Business malpractices have the potential to inflict enormous harm on individuals, communities, environment; the demands for all stakeholders for doing business ethically are every time stronger; ethical infraction to continuing to occurred in business and affects the corporation reputation and the societies.

Business leaders have also started to recognize the increased risks that Globalization can bring to their operations such reputation risk for example when ethical values are not stronger, and business makes wrong decisions creating damage or misconduct in their operation. They are international concern about those issues, discussed in meeting as World Economic Forum, the WTO, the IMF, and the World Bank as well as the summits of G8 or EU. The topics of globalizations and business are public agenda and moreover successive battles over fair trade and poverty, climate change, supplier’s channels operation have kept the ethical spotlight on the process of globalization and business. Moreover, corporations are concerned about climate
changes and standards for their supplier’s chain and they are disclosing that, according with the KPMG 2008, the following tendency is presented, in a survey to G250 companies. See the followings figures. First for supplier chain:

Report that address supplies chain risk by country

**Figure 2.3 Reports that address supply chain risk, by country**
This source of information is used with the authorizations of KPMG, (KPMG, 2008)

![Figure 5.5 Reports that address supply chain risks, by country (N100)](image)

The first is Japan and Italy is in the 9th place.

Companies are facing climates change risk and there are concerns about it, and they are disclosing their information: They are facing different types of climate risk: Physical risk like, Regulatory risk, Reputation risk and Litigation Risk: See Figure 2.4 on Climate change by type.

**Figure 2.4 Climate Changes risk by type**
This source of information is used with the authorizations of KPMG, (KPMG, 2008)
In a sample of 100 Physical risks has 44% and G250 has 46%, Regulatory risk, and Reputation risk has about 17%:

1. Physical risk like: extreme weather, changing agricultural patrons, flood risk and ecologically and biodiversity change.
2. Regulatory risk: Increasing regulatory policy of operation, such as carbon emissions
3. Reputation risk: When their operations have negative impact on climate changes.

Litigation Risk

**Figure 2.5 Reports that address Climate Changes risk by Sectors**

This source of information is used with the authorizations of KPMG, (KPMG, 2008)

The riskiest sectors is Mining and the financial sector is in the 8th place
What is the responsibility of business and what is the business of business? Business or business and sustainability are issues addressed in the following sections.

2.10 Corporations Business Ethics and Social Responsibility

Business ethics is considered such a part of the corporation social responsibility. In other cases, MNCs social responsibility is considered to be one aspect of Business ethics. According to Hoffman business ethics is “the study of the relationship of what is good and right for business and Corporate Social Responsibility (CSR) is the proper role or obligation of MNCs with in society” (Hoffman 2001). He considers social responsibility as a part of business.

Business ethics could be considered such a form of application that examines ethical principles or moral or ethical problems that can be presented in business environment. A big conscientious demand in 21 century for ethical business activities and responsibilities is increasing. Interest in business ethical accelerates dramatically from 1980 and 1990s within Corporation environment and the academy. Today, many corporations make emphasis (on their websites) on social responsible /ethical commitment and promoting non-economical social values using code of conduct, company principle and so on.

Corporation is a set of individuals who work together sharing culture, values, principles, objectives, strategy and so on. “Work together to establish corporate policy, make corporate decisions, and executive corporate actions” (Hoffman 2001), people in corporation share values, corporate values that lead to success ”. The successful companies of the future will be those that integrate business and employees' personal values. In other words, defining business identity as it was mentioned before. “The best people want to do work that contributes to society with a company whose values they share, where their actions count and their views matter.” - Jeroen van der Veer, Committee of Managing Directors (Shell). In that way, Corporations have social responsibility, for instance, what does it means that Generali Insurance Group is responsible for particular actions?

They are some thinkers that assume that corporation cannot exercise moral responsibilities; other thinkers assume always that government is required to ensure moral corporate behavior. Those approaches of thinking are weak. Hoffman pointed out that Goodpaster and Matthews enunciate a third alternative considering a corporation with a conscience analogues to an individual that recognizes independent moral judgment and locates the responsibility for corporate behavior in hands of the corporate managers, CFO, CEO and so on. Goodpaster and Matthews believe that corporation with conscience is the best alternative because it provides a
framework for an inventory of corporate responsibilities and corporation is part of the group of moral community.

In that way, if Corporation is moral responsible, what kind of responsibility does corporation have? This concept will be extended also in the following chapters.

In the traditional view of the American Model, corporations are responsible mainly for producing good and service and to sell them for a profit. In other words, it could mean that the responsibility of the business is to succeed. “The main responsibility of the business is to increase its profits” According to Milton Friedman

Recently the traditional view has been questioned, business is asking also for improving the society, contributing actively to public well being and do not harm it. They are expected to obey the law but beyond of that execute moral judgments in making decisions. In the traditional view, organizations are only to call to make money, organizations are private properties. Organizations feel that they do not fix in this model. In the modern theory, organizations are public institutions as well they are owned by stakeholders, business has other responsibilities that to leave in functions of making profits. It seems that at the power of corporation’s increase, the responsibilities with this power also are incremented. For some corporations the corporation external costs as pollutions, job dissatisfaction, and hazardous products would affect the will being of the society if Corporations do not have concerns about of their responsibility. In the modern view Hoffman mentions that Edward Freeman says that organizations are not longer only economical institutions but they are social institution as well.

2.10.1 What means social responsibility in Business ethics?

Corporate Social Responsibility (CSR) CSR: “It is the proper role or obligation of MNCs with the society” (Hoffman 2001). According to European Commission CSR is the volunteer Behaviour that MNCs assume to contribute to improve the environment and the society, and in

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11 The concept of corporate social responsibility was popularized by Freeman in 1984 (with his book strategic management, a stakeholder approach). Previously, social responsibility was motivated by the experience of the great depressions and the Second World War and further development taking care about of devastating consequences of imbalance of corporate power as environmental and health problems and even deadly consumer product, (Nestlé’s Infant Formula Case11), inhuman working conditions and so on. As a consequence of this imbalance situation, CSR criticisms have been raised moral issues and consciousness by media pressures and agents groups, NGOs, International bodies, consumers and so on.

12 According to European commission: to promote a framework for the company social responsibility, (18.7.2001 –COM/2001 – 366). Corporate Social Responsibility, CSR-RSI, represents the voluntary behavior that companies assume to contribute to improve the society and the environment. Today this voluntary behavior has a subjective approach very diffuse. There are several methods
the framework of what is *good* and *right* for business, following Corporate Ethical Principles and Values (CEPV) in their making decisions process –Business ethics- A Business ethic is characterized by in the governance and the making decisions process a set corporate principles and values are the guidelines driver, that are a representation of the culture and the sustainable strategy. In that way all of their decisions making and process and actions are social, environmental and economical responsible. The concepts form the traditional to modern view. Corporate social responsibility is for the sustainable development. Corporations that decide to act ethical/social responsible have a competitive and social advantage over those who do not: in terms of creation of value (distinctive value) for them, stakeholders and society. It is possible if Businesses align their strategies to corporate social responsibility, “Approached strategically, it generates opportunity, innovations and competitive advantages for corporation, -while solving social pressing problems-”, (Porter, Kramer, 2006) rather than damage control, For instance: Toyota case “the company's early response to public concerns about auto emissions gave rise to the hybrid-engine Prius. The Prius not only reduces pollution; it gives Toyota an enviable lead over rivals in hybrid technology” (Porter, Kramer, 2006). It is considered that Investing in disruptive social sector innovation may change the world.

2.10.2 How is this Social Responsibility –ethical commitment of business- articulate?

*As we mentioned earlier, in traditional business view* the major responsibility of business in American society is to produce goods and services and to sell them for a profit. We can ask and think that this is the right way to operate in a society?

Recently, however, the traditional view has been questioned. Increasingly, business is being asked not only for refrain from harming society but also to contribute actively and directly to public well being and in that process they can have a competitive advantage. MNCs are expected not only obey the law but also to go beyond of the demand of law and to make moral decisions

According to Friedman\(^{13}\), thinking the “main objective of the firm is to make profits” is not an appropriate behavior, because this objective does not help others (communities and so on) with the money of others, with the money of stockholders. In others words the manager cannot use corporate profit to help society.

\(^{13}\) An economist, Nobel, in economy 1976
But if we think that Corporations have a tremendous impact and power over our society, this traditional should change and is changing: Many thinkers argue that social power inevitably implies social responsibility and those who fail to exercise a responsibility should lose that power. The fail to exercise this responsibility has an external cost – pollution, hazardous products, job dissatisfactions, inappropriate products markets. As a result of this external cost, the society is calling for individual and social well being manifested by many international agents, governments, NGOs, civil populations and so on. Corporations are called to behave with social responsibility.

Freeman takes the idea that corporations have extensive social responsibility; corporations are economics institutions but also sociological institutions as well. Based on that point they have a voluntary obligation to help to improve the society in which they operate. In that way a changing concept of corporation responsibility is presented. Letting behind the perspective enounced by Friedman, corporations are directly responsible only to one set of people stockholders. These groups hire managers and then they are responsible for maximizing the utility). Friedman assumes that managers who assume social responsibility is using stock's holder’s money to solve social problems with out their authorizations- is changing.

In contracts to Friedman’s view in the modern corporation’s view, Edward Freeman argues that the corporation should be managed for the benefit of Stake holders. Stake holders are this set of people that is beneficed or harmed by and whose rights are violated or respect by MNCs actions. Stakeholders include a group of: Owners, employees, suppliers, customers and the local community, futures generations.

Freeman goes on to suggestion that the ethical challenge for management is to meet the claims made by each of these groups. Sometimes one of these groups may benefit at the expense of the other, but manager’s job is to keep the balance between them as best it can coordinate and maximize their joint interest. Freeman concludes by outlining a set of rules or principles to government’s corporate relationship with stake holders. Pigou remarks the concept of well

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14 The stakeholder concept began in the management litterateur via internal memo at the Stanford research institute in 1963. It is possible also observe business leaders were taking about stakeholders before 1960s. Dodd (1932) cities GEC defined four groups to lead with during the 1930s (shareholders, employees, customer and the general public), Moreover, Priston and Sapienze (1990) cite Johnson &Johnson as identifying customer, employees, manager and the general public in 1947, and Sears listed four parties to any business of their importance as customer, employees, community. A large amount of these cases under label of stakeholder theory were developed early under label of Corporate Social Responsibility, CSR or Corporate Social Performance, CSP. Social responsibility is referring to the balance de interest of multiples stakeholders (Friedman, Miles, 2006).
being that is a product of the human essence that makes sense to our actions. In that way Corporation can create wellbeing working and cooperation to other corporations, communities, international agents, Non profit organization. Part of what means that the corporation can cooperate with others corporation and government agencies to help social problems.

Bowie believes that corporations can create a moral community considering that the commitments between the corporation and its various stakeholders are reciprocal. Corporate Social Responsibility, (CSR) is becoming a very important issue in the international, regional a local business community at corporate level. It is noted that corporations have responsibility not only for the economical part but also for the group of agents in which they operate. Corporate social responsibility/sustainability is a corporate business initiative that creates long term shareholders value, that integrates the environmental, social and economics developments. (CSR) is embraced on sustainable company’s strategy and management are responding on that, as a result, its sustainable compromise affects company’s performance. The indicative helps to deal with opportunities, industries competitiveness and risk derivation from social, environmental and economical developments. This CSR/Sustainable compromise can be measured and used to identify and select leading companies for investments purposes.

Today, increasing a conscience the moral, principles the trust in local and in international environments have a big weight at the moment of making decisions. There are a set of international principles finance and investment, and there is a social conscience to the best practices and social responsible investment where the social corporate responsibility has a remarkable importance. There is a tendency of the company to create share value in the long term.

Currently, there have been growing the interests in these international, local and regional environment in the topic of CSR, such as UN, European community, NGOs, consumers and so on; But why? Because as a voluntary behaviour, Corporations have the obligation to improve the society in which they operate and improving the competitiveness of the industry in the frame work on international principle, social conscience where social responsibility is very important. 

In other words searching sustainable and balance society toward to common wealth, “corporate wealth” Corporation needs to pursue a sustainable/social responsible strategy that evolves 3 very important components that include the social, environmental and economics part the term of sustainable development that was created by Brundtland
Commission\textsuperscript{15} see diagram 1 where the integration of social, environmental and economical generates the sustainability:

2.11 Business/ MNCs operating in third world countries

On one hand developing countries frequently seek to attract Multinationals for the jobs they provide and for the technology transfers they offer. Multinationals are improving the standards of leaving and are reducing the poverty and starvation of these countries. Sometimes multinationals in third world countries are looking for the profit only as a definition of traditional social responsibility. They are questioned for exploiting the resources and workers in developing countries. Other times multinationals are working for both profit and social well of the groups and of stockholders.

Very often the multinational Corporations act with ethical/CSR/sustainable prospectively, and they permit to growth some standards of life in third world countries. However in other cases in their business operations, Corporations commit law violations, for instance they pay low salary, child labor, employees are exposing at job risk; employees are exposing to damage because of possible exploitations on the environment, mine sector for instance (Fanni, Vargas 2006). That Multinational Corporations (MNCs) commits some inappropriate actions, and it has impact in their performance and reputation, when they operate in communities. Those operations are making managers responsible for these inappropriate corporate actions, others examples are (1) low supplier channel standards (2) pollution, (3) cost of labor force, (4) Child labor exploitation, for example the case of Nike, or Wall Mart giving employees bad treatment and low payments, (5) Inappropriate Market promotion techniques: Nestlé’s Infant case.

When MNCs operate in developing countries it is important to define special rules, because developing countries and developed countries have different standards to operate. Sometimes there are not clear norm of background to operate in third worlds countries, there is a corruption factor in the institutions, bribery and a problem of risk country is involved. Sometimes there are

\textsuperscript{15} Brundtland Commission, formally the World Commission on Environment and Development (WCED), was convened by the United Nations in 1983. The commission was created to address growing concern "about the accelerating deterioration of the human environment and natural resources and the consequences of that deterioration for economic and social development." In establishing the commission, the UN General Assembly recognized that environmental problems were global in nature and determined that it was in the common interest of all nations to establish policies for sustainable development.
authoritarian regimens that are ensuring that MNCs are doing more good that harm in developing countries, but those rules make difficult negotiations.

An important role of any corporation has to be a corporation is the cooperation with other corporations and government agencies to help social problems, balancing the society mainly in developing countries where institutional rules for MNCs are not clear. This is a responsibility of the all (civil population, ONGS, Local governments, international governments and agents). When governments do not solve the social problems it is responsibility of civil population, internationals bodies to press organizations to do it. In MNCs the initiative should come from the stock holders and from the top and they could be involved in all the corporations. MNCs, NGOs, Agents and so on and countries in which they operate can operate together in a learning process : putting in practices, Corporate social responsibility (CSR), this fact contributes to improve the society for present and future generations manifesting ethical/responsible commitment; it is a Corporate Social Responsible obligation-improving the society- a way is to work in relationship and cooperation with stake holders for example Corporations working together with NGOs – These actions could be reflected in increasing reputation, corporate benefit from the governance, a contribution for regulation in the imbalance society-poverty reduction, health improvement conditions, and at the same time, it establishes long term relationship with stake holder’s actions that improve society for present and future generations, Add value.

There is an example where these ethical/CSR/sustainability dimensions generate social value and economical value as well. There are practical cases: “Learning together: new partnership for times” “This article describes two projects in which NGOs-Oxfam and Unilever-Multinational, have began to collaborate in recently years, The first project is the Sustainable Food Laboratory project that evolved MNCs, global and local NGOs, and governmental organizations to focus at the global level, on the world food production systems. The second is exploring the links of a joint study carried out by Oxfam GB, Novid (Oxfam Netherlands) and Unilever into relationship between Unilever’s business and poverty reduction in Indonesia. These two cases give an example of both Oxfam and Unilever together looking at sustainability form” (Senge, Dow, Neath, 2006)

As it was mentioned earlier, when corporations operate in 3therd world countries it is important to monitoring their suppliers, and to control that they do not commit abuses with their employees in their operations. It is important that these suppliers operate also under the set of
principles. It is observed that in the practical way, ethical/social responsible commitment is still weak, in the reality there is a lack of monitoring on ethical behaviour.

Corporations have ethical commitment but low monitoring systems to control; there is a recently case involved in scandals-reported by UK media, observer, and the Economist, GAP was accused: one of its supplier in India was using child labour for Gap Kid. GAP ING, The biggest fashion retailer American. Although, the company has a strict code of conduct, and ethical commitment, it was recently last year, (Economist, October, 2006), evolved in a accusation, when it was discover that an Indian retail supplier subcontracted the production of children clothes, child labour case (it was discover that child workers were under slavery) it was a problem of monitor control. It is responsibility of the firms to guarantee that their suppliers work with international standards: the firm should be controlling and monitoring their suppliers. Action- GAP rejected the production and stopped to continue working with them. There is a lack of monitoring, and the case mentioned previously can affect corporation reputation.

MNCs should operative in a framework of international norms. In International environments according to (KPMG, 2008) companies are reporting and concern more about their suppliers chain risk, companies are beginning to operate their code of conduct for suppliers, for example making environmental and social considerations and integrating them into the suppliers’ contracts, and incorporating them into the strategy and management and disclosing this information see following two figures: Monitoring of suppliers chain is a job of managers.

**Figure 2.6 Level of discloser on supply chain management systems**

This source of information is used with the authorizations of KPMG, (KPMG, 2008)

<table>
<thead>
<tr>
<th>Aspect of supply chain management</th>
<th>G250 (Sample size: 250)</th>
<th>N100 (Sample size: 2170)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy (mission, vision stated)</td>
<td>64%</td>
<td>40%</td>
</tr>
<tr>
<td>Tactical (policies in place)</td>
<td>68%</td>
<td>42%</td>
</tr>
<tr>
<td>Operational procedures described</td>
<td>68% (total: 164)</td>
<td>44% (total: 961)</td>
</tr>
<tr>
<td>Specific operational procedures described</td>
<td>Sample size: 164</td>
<td>Sample size: 961</td>
</tr>
<tr>
<td>* Code of conduct included in supplier selection</td>
<td>89%</td>
<td>71%</td>
</tr>
<tr>
<td>* Code of conduct included in supplier contracting</td>
<td>82%</td>
<td>88%</td>
</tr>
<tr>
<td>* Code of conduct included in regular supplier auditing</td>
<td>59%</td>
<td>38%</td>
</tr>
<tr>
<td>* Provides data on number of suppliers audited for code of conduct</td>
<td>15250 (6%)</td>
<td>66/2170 (3%)</td>
</tr>
</tbody>
</table>

**Figure 2.7 Reports that address supply chain risk, by sector**
Financial sectors are in the 12th positions, in the first are chemical and synthetics sectors.

Moreover, we know that Multinationals have a very high impact in the economic development in developed and developing countries, but also sometimes their operations could cause more harm that good if they are not considered operating according to international principles. Sometimes this is consequence of a lack of government appropriate systems that do not have very clear principles and rules of the operations. When they make decisions regarding operating in third world countries, a problem of dilemmas could be faced and the corporation actions and decisions can harm societies.

Currently, there are international guidelines, principles, common language that help to balance corporation operation in communities, and international bodies, international institutions as well. Some experience from the past have been considered to define these rules, international institutional, institutions, and these international guidelines, for example there is a example of international classical case Nestle infant formula (It will be explained later in this chapter), that has been used by the World Health Organization (WHO) to improve the deontological code
“code of conduct”. The WHO has the responsibility to develop the international deontological code and to denunciate some unfair corporate phenomena in the US Senate.

Some international norms and guidelines principles are explained later in this chapter. The UN Norms on the corporate responsibility, environmental, human rights, SRI, Global Compact initiative report, ISO Standards ISO 14001, Global report initiative and (GRI), Equator principles for responsible investments in (chapter 3).

Corporations with commitments to Ethical/responsibility/, voluntary adopt international standards of conduct in the directions to sustainable behavior incorporating social, environmental and economical aspects in their operations.

Many realities of Multinational operations are described in the Austrian movie Let’s Make Money.

2.11.1 Let’s make money, movie:

From the point of legal view, there are many things that are correct but, are they ethical? *That is a model of Wining of few losses of many:* The question depends on the principles of investor business. In that way it is possible to say that globalization is a positive aspect, but also, it has bad connotation if players of globalization as investors want to play in an unbalance situation taking advantage.

For instance it is the case when: Investors from developed countries that invest in emerging markets have benefits of taxes reduction; they have the possibility to pay few taxes and in some case nothing for their operation. Who pays real taxes are the Firm’s employees. Those employees pay the taxes to the government and there are the government benefits. Those companies have a gross profit but their taxes are very low.

In the third world countries the poverty is a constant characteristic. Therefore, in developing countries, companies should help to decrease poverty.

Investors in emerging countries do not show interest for ethics and for the operation of companies in which they invest. Additionally, they do not care of some aspects that could bring a society balance helping to reduce poverty. The concern for those Investors is about economical growth.
Other point is the unfair worth distribution between rich and poor countries. Companies that
invest in poor countries for example Switzerland in Ghana, in gold mine, the rich mines the gold,
at the same time environmental pollution is produced and at the end when they split utilities
those are unequal distributed 3% for Ghana, and 97 for Switzerland.

The world banks, the UN in third countries put difficult rules, for instance: they indebt
countries, companies and when they do not have who to pay they force to sell property or good
very low, for example, the oil at cheaper prices or to give the flat. The US has the high debt in
the world but they are privileged because the Oil is commercialized in dollars. But if anyone
asks to commercialize in other currency they could get into problems.
The US controls the World Bank which is supported by many countries but US has the control.
On the other hand, the FMI is controlled buy Europe.

2.11.2 A case of harming that helped to set up international principles: Nestlé’s infant formula
Case

Let’s analyze some aspects about the classical Nestlé’s Infant case presented by (Hoffman,
Frederick, Schwarts, 2001) that occurred in at the end of the 70’s.
This case has introduced ideas about how Corporations should be organized in terms of
development process, distribution and product advertising in third world countries.

1. Nestlé’s infant formula Case

It is a case that has been study for 20 years, and evolved countries as South America, Africa,
and Meridian Asia. This was a case of a product of excellent quality “milk powder” but
inappropriate aggressive market distribution and advertising. The Nestle company was not
prepared to determine if the local conditions are compatible with the product itself: powder milk.

The product harmed the population when it was used appropriately. The damage of the product
in the babies’ population was as a consequence of wrong use and consumption. Nestle
Company did not give the minimal condition necessary to make sure the right use of the powder
milk product and decreased the danger risk of consummation on inappropriate environmental
conditions.
Bogotá, a place where it was distributed in 1970 experience a problem of malnutrition of babies that is one of the problems in developing countries. In that way: Mothers used the product making a substitution of breast milk, the mothers were leaving in a situation of underdevelopment and illiteracy, the product was put in a tropical area where the water quality is inappropriate.

2. General characteristics of Nestlé’s infant formula Case

This infant formula controversy started with PAG (Protein Calorie advisor group) at Bogotá. The meeting was aimed to discuss the problem of malnutrition and disease in developing countries and continuous for several years. As a result of this situation many efforts of international groups (International Council of Infant foods Industries) started to development an international code of marketing practices. The problem of hunger and malnutrition was an international issue and international groups and governments started the pressure on companies to act responsibly and dealing with the poor and needs of developing countries. It was a the situation related with the cycle life of a product

The case was developed in 4 phases: (1) Phase I: Started with the meeting PAG (1970) of the United Nations and continues for many years. An important issue occurred, Peter Muller journalist supported by British charity group travel to Africa to study the marketing abuses. Muller wrote several articles with the title Baby Killer (1974). The articles generate the conversation with Nestle employees and very important public actions of Swiss group opening international interest on Malnutrition due to commercial practices. International industries created an international association of infant food industries to use and follow marketing code. (2) Phase II: Between 1975 and 1978 the united was stated and Europe increased its attention to the situation. (3) Phase III: International regulatory phase started (4) Phases IV Implementation phase (Institutionalizing), and also some modifications to the marketing code (In the implementation Nestle discovered that many points were uncompleted and lawyers were needed.

3. Some considerations:

- It is a case that introduces a product of developed country in a developing country
- Nestlé’s formula involved a product that is not defective itself.
- Infant formula is also not harmful to the consumers when this product is used under appropriate conditions.
It was demanding that the product can be harmful when risk conditions are presented. 

Based on international standards and ethics terms, the advertising marketing of product must guarantee that a product should be used appropriately. 

The advertising will content also the minimum conditions necessary for safety use.

4. International criticism

Promotional practices: Nestle used an aggressive marketing in the “powder milk” product Nestlé’s infant formula in developing countries an it became a serious problem in 1970. The product was put in developing nations as Colombia with problems of malnutrition and diseases. These promotional practices allocated Nestlé’s products on the mothers. Many of them live in circumstances that made the use of the product risky.

First the product must be sold in powdered form in tropical environments, requiring that mothers mix the product with available water. Where water conditions are poor quality and infant are exposed to disease. Second, the product needs to be mixed, so the preparation instructions are important and the mother should be able to read, unfortunately a rate of illiteracy is very high in developing countries. Third, the formula is relatively expense to purchase there is a mother’s tendency to over dilute the powder with water, with the objective to stretch the product for few extra days without buying new supplies. Mother who came to the clinics with malnourished babies reported that they stretched a five nestle formula to 10 days more.

Nestlé’s advertising practices promoted the idea that bottle-feeding was better than breastfeeding in order to improve babies’s healthy life (doctors disagree). Mother started to prefer this method. At the end they with horror discovered that they were starving their babies.

It is interesting to see that when MNCs operate in developed countries for example American corporation is operating in Japan, German and so on. The standards to do business are very similar and it is not difficult to negotiate. In some cases international agents (United Nations, ILO, UNIDO, UNESCO and so on) are necessary to check and control MNCs operations in developing countries. Additionally, these international agents’ propone, international agents propose voluntary norms of behavior that countries and MNCS could adopt and follow in order to be ratified.

2.12 International standards of behavior- code of principles and MNCs
With the globalization multinational are entities with a lot of power, and, in order to keep the balance between societies and MNCs a set of International principles are necessary. In that way companies can respect human resources and natural resource by creating and sustaining a corporate culture base on a standard of behavior. Defining a code of behavior, in which: employees, customers, suppliers and local population, are respected and where their values and principles are included. For instance: companies could produce safe produces and services in a safe work place and protecting the environment (avoiding pollution). The definitions of ethical standards, international standards of a company and sectors should be defined with the cooperation of the group of the all stakeholders, toward to satisfy their group interest not only an interest of individual stake holders. (Ingenbleek, Binnekamp, Goddijn, 2007). There are some international standards that could be guidelines for corporations and groups of stakeholders. Adopting standards using this mutual cooperation, firms enhance in legitimacy, (Ingenbleek, Binnekamp, Goddijn, 2007)

Some of the international standards are:

1. The International Pact on Civil and Political Rights;
2. The International Pact on Economic, Social and Cultural Rights;
3. The Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment;
4. The Convention on the Elimination of All Forms of Discrimination Against Women;
6. The Convention on the Elimination of all Forms of Racial Discrimination;
7. The Convention on the Rights of Migrant Workers and their Families;
8. The UN Code of Conduct for Law Enforcement Officials;
9. The UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials;
10. The UN Convention on Refugee Status;
11. The Geneva and the Hague Conventions (Convention for the Amelioration of the Wounded and Sick in Armed Forces and Field; Convention for the Amelioration of the Condition of Wounded, Sick and Shipwrecked Members of Armed Forces at Sea; Convention Relative to the Treatment of Prisoners of War; Convention Relative to the Protection of Civilian Persons in Time of War; the additional Protocols and the Hague Conventions);
12. The ILO Tripartite Declaration on Multinational Enterprises;
13. The OECD Guidelines for Multinational Enterprises;
14. The OECD Principles of Corporate Governance;
15. The European Convention on Human Rights and Fundamental Freedoms;
16. The UN Declaration on the Right to Development;
17. The Declaration on Social Progress and Development;
18. The Bruntland Report “Our Common Future”, UN World Commission on Environment and Development (1988);
19. Numerous Resolutions and Communications by the European Commission and the European Parliament including the Howitt Resolution (1999);

In the international context, companies are increasing the adoption of international norms, guidelines principles, according in a survey to G250 companies to KPMG, 2008. This is the tendency: See the Figure 2.78:

**Figure 2.78 International frameworks used by companies 2005-2008**

This source of information is used with the authorizations of KPMG, (KPMG, 2008)

The UN global Compact is the first followed by ILO core conventions, OECD is in the forth place

Is the business of business is business or the business of business is business and sustainable? When companies incorporate in their operations the social, environmental and economical part can develop competitive industrial advantage and additional improvements to the society in which they operate, thinking in the stakeholders. Companies are called to respect basic human rights, improve the worked conditions for their employees, acting in a way that respect and
support employees, customers and surrounding communities and by avoiding relationship that violate human beings’ right to health, education, safety, and adequate standards of leaving. Governments in third world countries principal do not provide these functions, but it is the right of the civil population which makes press over the companies to do it. The business of business is sustainable and business in business with alight their ethical sustainable strategy with business identity. MNCs can be a good citizen by supporting social institutions and by working with governments and other organizations to protect the environment. For example good companies citizen establish a code of behavior/code of ethics. The code of behavior establishes a moral compass for business practices. The codes of behavior can help companies to identify practices that are acceptable and those that are intolerable, even thought the practices are compatible with a host country’s norms and laws related with pollution near people’s home and accepting inadequate standards for hazardous material. Similarly, if employing children prevents them for receiving a basic education.

Moreover, it is a MNCs’ business responsibility which pays attention to specification, selling and commercialization products that could be dangerous if they are used in a wrong way, and employee’s treatment that can be affected in well heath. Most of the time these violations are not coming from MNCs; they came from their suppliers, when they do not following specifics norms of conduct. But it is responsibility of the MNCs to guarantee that their suppliers are working with appropriate standards and quality, and they must guarantee to their employee’s good standard in their job places. In fact, this lack of responsibility could affect companies’ reputations and society well being.

The most venerable people are consumers, employees and members of the communities. The rights of these people should be protected by Governments, Influent Public (IP) (Foundation), NPOs, NGOs, international agencies and so on to try to keep the balance with organizations. When the government does not play a clear role in the responsibility of the business, the customers should push them to act in the right way and to help governments, mainly in third world countries where regulation and the role of the governments is not strong at all.

There is a classical case that was controversial and had a big impact in the international environmental in the 70s and that helped to set up international rules and guidelines: Nestlé’s infant formula case, as it was indicated earlier.
2.12.1 Volunteer international ethical principles and multinational ratifications.

MNCs operations could be in the framework of international standards and in a Corporate Code of behavior. Corporate code of behavior is a private law or a promise of voluntary norms of acting. The fact is that this code of behavior is voluntary and reflects the MNCs flexibility to act. In that way MNCs have commitment of behavior and are evaluated. This code of behavior is closely linked with social responsibility of the MNCs. When a code is implemented it needs to be monitored. This control is generally in charge of international agent, governments and civil population, consumers and the corporation as well. MNCs should operative in a framework of international norms to create standards, guarantee the balance of the society and guarantee a well wealth.

According to Hoffman there are 7 moral norms that can apply to According to Hoffman there are 7 moral norms that can be applied to keep the balance of operation of corporation in communities: (Hoffman, Frederick, Schawartz, 2001):

- MNCs should not international directly produce harm
- MNCs should produce more good than bad for the host country
- MNCs should contribute by their activities to the host country’s development.
- MNCs should respect the human right of their employees.
- MNCs should pay fair taxes
- MNCs Should respect the local culture
- MNCs should cooperate with local government

On the other hand, there are International norms which were set up by international bodies as UN, OECD, and EU to facilitate the operation of multinationals. They are voluntary norms, and go further that the law. In that way the minimal behaviour that corporation should guarantee is to show they are following the law and the additional things that voluntarily they are willing to take in social responsibility – helping to decrease poverty, employee’s benefits and employee’s families’ concerns, educational, cultural actions and so on. They need to be creative in this corporate social responsibility and to demonstrate the society that they have social responsible commitments.
2.12.2 International guidelines for CSR:

1. OECD Guidelines for Multinational (Organization for Economic Cooperation-Development)
2. Belgian Social label
3. EU level CSR and EP-related resolutions
4. UN Guidelines –ILO
5. Social accounting auditing and sustainable reporting

1. *OECD Guidelines Organization for Economic Co-operation and Development*\(^\text{16}\)

The standards are voluntary; there are no punishments or sanctions to penalize a company that violates them. However, each endorsing government must set up a National Contact Point (NCP) to oversee its implementation. The Guidelines, adopted in 1976 and revised in 2000, cover a wide range of issues including *human rights*, *labor relations*, *the environment*, *consumer protection*, *disclosure of information*, *anti-corruption*, and *taxation*. On labor issues, ILO standards support the Guidelines including respect for the right to organize and bargain collectively. NCPs differ in structure from country to country. They are responsible for publicizing the Guidelines and for dealing with complaints against companies alleged to be in violation of them. NCPs do not monitor whether or not companies are following the Guidelines. The list of national contact points in developing countries- Argentina, Brazil and Chile

2 Belgian Social Label

In January 2002 the Belgian Parliament approved a law introducing a voluntary social label. This law offers companies the possibility to acquire a label, which is granted to products whose whole chain of production respects the 8 fundamental ILO conventions. The label is given by the Ministry of Economic Affairs after a positive and binding opinion of a stakeholder committee (composed of government officials, social partners, business federation’s consumers and NGOs representatives) for a maximum of three years. The Committee for Socially Responsible Production establishes a program of control for the company and monitors its progress on compliance.

\(^{16}\) OECD web site, [http://www.oecdwatch.org/](http://www.oecdwatch.org/)
3. EU level CSR and EP-related resolutions

At the level of the European Union, the interest in "Corporate Social Responsibility" has magnified over the past few years. The European Parliament passed a first resolution in 1999 to promote the European responsibility related to multinationals and voluntary codes of conduct: "European Monitoring Platform". The Parliamentarian Richard Howitt was appointed as the reporter on the Green paper and put forward a second resolution in June 2002. This resolution calls for new legislation to require from companies to publish report annually on their social and environmental performance.

4. UN Guidelines

A. The Global Compact of principles:

The United Nations Global Compact, also known as Compact or UNGC, is a United Nations initiative to encourage business worldwide to adopt sustainable and socially responsibility policies, and to report on their implementation. The Global Compact\(^\text{17}\) is the world's largest corporation citizenship initiative and as voluntary initiative has two objectives: "Mainstream the ten principles in business activities around the world" and "Catalyse actions in support of broader UN goals, such as the Millennium Development Goals (MDGs).

The Global Compact is a principle framework for businesses, that remarks ten principles in the areas of human right, labour, the environmental and anticorruption. Business has to make sure that: (1) Human rights: Principle 1: Support and respect the protection of internationally proclaimed human rights; and Principle 2: Make sure that they are not complicit in Human rights abuses. (2) Labour Standards: Principle 3: the freedom of association and the effective recognition of the right to collective bargaining, Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labor; and Principle 6: the elimination of discrimination in employment and occupation. (3) Environment Principle 7: support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies. (4) Anti-Corruption Principle 10:

\(^{17}\text{The Global Compact was first announced by the then UN Secretary-General Kofi Annan in the World Economic Forum on January 1999, and was officially launched at UN Headquarters in New York on July 26 2000}\)
Businesses should work against corruption in all its forms, including extortion and bribery. Under the Global Compact, companies are brought together with UN agencies, labour groups and civil society. The labor standard came from ILO convention.

B. ILO tripartite declaration of principle concerning multinational enterprise and social policy contains guidelines for MNEs in the field of employment, conditions of work and industrials relations.

C. Human right Norms for business
   - Freedom association, child labor, health and safety work place

D. ILO Conventions, (Child labor)\(^{18}\)
   Convention – Voluntary recommendations to operate. A country or MNCs can adopt and follow the convention which needs to be ratified
C182 Worst Forms of Child Labor Convention, 1999
C138 Minimum Age Convention, 1973

5. Social accounting auditing and sustainable reporting

MNCs should communicate/reporting and tell the society, governments, consumers, rating agencies, Non-profit organization, and so on that they have sustainable/social corporate behaviour. Reporting is essential for understanding and tracking social and environmental impacts, social/sustainable reporting.

Corporations when are taking responsibility for their impact on society means in the first instance that a company accounts for its actions. In that way we talk that corporation has social accounting that is a concept describing the communication of social and environmental effects of a company's economic actions to particular interest groups within society and to society at large. Thus, it is an important element of CSR.

Social accounting is commonly used in the context of business and social corporate responsibility (CSR), although any organisation, including NGOs, charity and government agencies may engage in social accounting also the influency public as fundations.

\(^{18}\) ILO convention [http://www.ilo.org/ilolex/](http://www.ilo.org/ilolex/)
A number of reporting guidelines or standards have been developed to serve as frameworks for social accounting, auditing and reporting for instance:

A. Accountability’s AA1000 standard,

This standard is based on Jojn Elkington’s triple bottom line, 3BL reporting: This standard is a series of recognized corporate responsibility standards; it is and open source force for organization accountability development through a multi-stakeholder consultation and review process. The standard are development to be compatible with other key standards in this area including GRI guidelines, SIGMA Guidelines, SA800 the ISO series and financial accounting standards.

B. Global reporting Initiatives (GRI)\(^{19}\):

Global reporting initiative (GRI) is the products in the world in sustainability standard reporting guidelines. Sustainability reporting is the way and an action where an organization publicly communicates its economic, environmental, and social performance. The GRI’s mission is to make sustainability reporting by all organizations as routine and comparable as financial reporting. The GRI Guidelines are the most common framework used in the world for reporting. More than 1000 organizations from 60 countries use the Guidelines to produce their sustainability reports. View the world’s reporters at the GRI Reports database. All sorts of organizations report using the GRI Guidelines, such as corporate businesses, public agencies, smaller enterprises, NGOs, industry groups and others.

Sustainable report promotes transparence and accountability. It is because organizations report their information in a public domain. In that way the stakeholders who are the people affected and evolved in all of the activities of the firm can see this discloser information and analyze firms in the base of the sustainable (CSR) criteria on social, environmental and economical issues and monitoring this commitment in sustainability. Reporting can be monitored year by year or compared with other enterprise reporting as benchmark.

\(^{19}\)The GRI was formed by the United States based non-profits with the support of the United Nations Environment Programme UNEP in 1997. It released a preliminar version of the Sustainability Reporting Guidelines in 1999. The first full version appear in 2000, the second version was released at the World Summit for Sustainable Development in Johannesburg – where the organization and the Guidelines were also referred to in the Plan of Implementation signed by all attending member states. Later that year it became a permanent institution, with its Secretariat in Amsterdam. Although the GRI is independent, it remains a collaborating centre of UNEP and works in cooperation with the United Nations Global Compact.
C. The G3 reporting Framework.

The G3 initiative is the so-called “Third Generation” of the GRI’s Sustainability Reporting Guidelines. They were created in October 2006 at a large international conference.

There is a “third generation” because the GRI seeks to continually improve the Guidelines. The G3 was the following variation to the G2 (released in 2002), and this was the following improvement to G1 which was released in 2000. The G3 Guidelines provide universal guidance for reporting on sustainability performance. They are applicable to small companies, large multinationals, public sector, NGOs and other types of organizations from all around the world. The Guidelines are created (through the multi-stakeholder, consensus seeking approach) to promote them to be so broadly applicable.

The G3 consists of principles and disclosure items (the latter includes performance indicators). The principles help reporters define the report content, the quality of the report, and give guidance on how to set the report boundary. Principles include those such as materiality, stakeholder inclusiveness, comparability and timeliness. Disclosure items include disclosures on management of issues, as well as performance indicators themselves (e.g. “total water withdrawal by source”).

D. Social Accountability International (SAI)

It is a global standard-setting non-profit human rights organization dedicated to improving workplaces and communities. It started its operation in 1997. (SAI)\(^20\) developed the SA800 standard that is an international certification.

The SA8000 as a voluntary standard was designed by a multi-stakeholder advisory board, including representation from companies, trade unions, NGOs, suppliers, government agencies, certification bodies, social investment firms, and human rights activists. SA8000 is based on UN and International Labor Organizations (ILO) conventions and declarations, national law, and the International Organization for Standardization (ISO) management systems. The standard is based on the following eight human rights components: (1) Child labor, (2) forced labor, (3) health and safety, (4) freedom of association, (5) discrimination, (6) discipline, (7)

\(^{20}\) In March 31, 2008, 872,052 workers in 64 countries and 61 industrial sectors were employed at 1,693 factories, stores and farms were certified to SA800 by (SAI).
working hours, and (8) remuneration. Certified facilities must integrate these standards into their management systems.

E. Green Globe

It is a global brand that includes programs for sustainability, carbon neutrality and Benchmarking, Certification and Performance Improvement based on the Agenda 21 principles for sustainable development agreed to by 182 Heads of Government at the United Nations Rio Earth Summit of 1992. Green Globe is supported by the science and technology of the sustainable Tourism CRC (STCRC) the largest source of sustainability research in the world. The agenda 21 has the following objectives: (1) Waste minimization, reuse, recycling; (2) Energy efficiency, conservation, management; (3) Management of freshwater resources; (4) Waste water management; (5) Hazardous substances; (6) Transport; (7) Land-use planning and management; (8) Involvement of staff, customers, communities in environmental issues; (9) Design for sustainability; and (10) Partnerships for sustainable development.

F. ISO 14000

The ISO 14000 environmental managemental standards exist to help organizations to minimize how their operations could affect negatively the environment (cause adverse changes to air, water, or land) and comply with applicable laws and regulations. ISO 14001 is the international specification for an environmental management system (EMS). It specifies requirements for establishing an environmental policy, determining environmental aspects and impacts of products/activities/services, planning environmental objectives and measurable targets, implementation and operation of programs to meet objectives and targets, checking and corrective action, and management review.

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21 Agenda 21 is a programme run by the United Nation (UN) related to sustainable development. It is a comprehensive blueprint of action to be taken globally, nationally and locally by organizations of the UN, governments, and major groups in every area in which humans impact on the environment. The number 21 refers to the 21st century. There are 40 chapters in Agenda 21, divided into four sections: (1) Section I: Social and Economic Dimensions, including combating poverty, changing consumption patterns, population and demographic dynamics, promoting health, promoting sustainable settlement patterns and integrating environment and development into decision-making. (2) Section II: Conservation and Management of Resources for Development: including atmospheric protection, combating deforestation, protecting fragile environments, conservation of biological diversity (biodiversity), and control of pollution. (3) Section III: Strengthening the Role of Major Groups, including the roles of children and youth, women, NGOs, local authorities, business and workers. (4) Section IV: Means of Implementation: including science, technology transfer, education, international institutions and mechanisms and financial mechanisms.
ISO 14000 is similar to ISO 9000 quality management certification. Both are focused on the process and how a product is produced rather than to the product itself. The overall idea is to establish an organized approach to systematically reducing the impact of the environmental aspects which an organization can control. Effective tools for the analysis of environmental aspects of an organization and for the generation of options for improvement are provided by the concept of Cleaner production.

There are other groups as FTSE group that published the FTSE good index an evaluation of CSR performance of companies.

2.13 The role Influence Public

This Influential Public are different from the stakeholders, the influential publics are this part that no participate directly from the productivity activity of the company, while they can influence the ruts of the organization to the external world and they have dimensional social impact.

Due to Public Influence company actions can be valuated morally and judgment of them could be emitted. This public influence can have influence in the way the organizations are reached the objective and their objective in the name of the civil society. The important role of the Public influence is to introduce inside of organizations, in the decisions making process, and in company interest, the exigencies, and demands of the society and their exigencies to protect the society. They are no part of the organically relation inside the company. An example or Influence Public could be the Foundations.

Foundations have an impact that could measure in economical and social terms. Businesses try to earn as much as possible to retain enough to the stockholder and all of the other interested parts -stakeholders- All parts are in the WIN-WIN situation. Foundations help to balance interest on both side stockholders and stakeholders. For example: through out Corporate Foundations it could be possible development projects on: poverty reduction, improve health conditions, addressing the AIDS situation in Africa.-

Also, a benefit of tax reduction for Corporation is present and benefits for society (stakeholders). A corporate function is “a tax exempt private foundation that is founded by a business entity but it legally separated from its sponsoring company, currently corporation may deduct charitable contribution, included donation to the sponsored foundation, up to 10 percent of their
modified annual taxable income (Internal Revenue Code Section 170(b)(2)). Because of this favorable tax treatment and other advantages tax provisions for private foundation, many firms establish corporate foundation to manage all or some of their donation” (Himmenlstein, 1997). This is another way to have a benefit from the 
ethical/ social responsible/sustainable commitment. The social function of private foundation is an extend form from, the traditional charities and philanthropy. However, funding activities in relation with social and public issues are more controversial and vulnerable to criticism than donation to traditional charities, in that way corporation should create legitimist and strong argument social programs, such a planed parenthood project, through their private foundation. Corporations creating foundation are more proactive in building good relationship with various stakeholders” (Chen & Roberts 2006) than corporation in the scenario of shareholder orientation.

2.14 The responsibility of third Agent bodies and NGOs:

The agent bodies have the responsibility to monitoring corporate behaviour and corporate social responsibility behaviour. When there are not clear rules, principal in developing third world countries, there are lack of transparency and confidence in MNCs operations (the low trust), in equivalence in the society, when there is corruption, in the local governments and MNCs wants to take advance over the negotiations and also when the relationships among MNCs and third world countries are not thinking in the long term relationship based on cooperation, or they do not consider that their operations have impact (positive or negative) in future and present generations, setting a 
third agents body is necessary for example UN, ILO, UNICEF, NGOs, G8 and others. They can press local third world governments and MNCs to behave with principle (code).

To balance this inequity there are international rules and guidelines that could be adopted by countries, MNCs and their behaviour can be evaluated according with these international principles by consumers international bodies, internationals governments, international agencies and so on. If the companies do not behave ethically voluntarily they need to be press by all of these entities. For example UN norms do not create new obligations on companies, but they have several norms

The third agent bodies ILO international labor organization establishes a several rules for working and right human protections. For example one of the controversial topic in an international environment is related to child labor exploitation, where Childs are working under infrahuman conditions and under the appropriated age to work, and there is an international
principle reflected in the convention C138, it set up the minimum age in which a child is able to work that is no less that 15 and the job should not interfere with his studies. If the child who have economy and education facilities is insufficiently developed could consult with worker organisations (minimum age of 14). In The job conditions of heath, safety and moral for the young people should be part of the job environment. All of these conditions should be applied for mining, manufacturing, construction, plantations agricultural.

In the article 7, the convention mentions that nation’s laws or regulations may permit the employment or work of persons 13 to 15 years age on light work which is not likely to be harmful to their health or development and it does not prejudice their attendance at school. There is important point about appropriate penalties that competitive authorities should apply to ensure the effectiveness.

There are international bodies as ILO with the international programme on the elimination of Child Labor (IPEC). This programs works with others, including: private business, community based organization, NGOs, the media, parliamentarians, the judiciary, universities, religious groups and children and their families. National community actions are very important. Through local authorities and Municipality, Working with the small and medium sized business and multinational operating this kind of international programs can get children out of work and into school.
Chapter 3

3. Corporate Social Responsible (CSR) approach

This chapter is an analysis on what is the responsibility of the business? From that reflection, this chapter covers the following aspects: The meaning of corporate social responsibility, the concept of CSR based on the definition of the space between the law and social expectation, the expectation of stakeholders and incorporating of identity in the sustainability strategy CSR, the evolution of the concept, the traditional ideology and modern ideology of CSR and why the concept is changing, corporate social responsibility benefits, corporate social responsibility international perspective.

3.1 What does it mean Corporate Social Responsibility (CSR) ?

Corporate social responsibility (CSR) is a part of business ethics and is a concept growing around the globe rapidly. This CSR concept is frequently overlapped with similar terms such as corporate sustainability, corporate sustainable development, corporate responsibility, and corporate citizenship that at the end make reference to the same issue. It is observed that CSR does not have a universal unified definition. The concept is widely discussed in theory and practice; there is no general agreement about its definition. According to the definition of the European comitions is “a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” (COM, 2001, 4) by integrating “social and enviromental concerns in their business operation and in the interaction with stakeholders” (COM 2001, 6).

According to the Organization for Economical Co-operation Development “business’s contribution to sustainable development” (OECD 2001, 13). Corporate social responsibility is very similar to the concept of corporate sustainability which remarks the integration of economical and social issues to business managements, and in that way a sustainable strategy is developed in the long term. All of this framework should have a conductor line of corporate ethical principles and values. In this paper the term of CRS and susanible are overlaped.

The World Business Council for Sustainable Development in its publication "Making Good Business Sense" by Lord Holme and Richard Watts, used the following definition. "Corporate Social Responsibility is the continuing commitment by business to behave ethically and
contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" The concept of social responsibility has very high important components of ethics that are the guidelines going to improve the quality of life of the people in organizations and, at the same time, provides a industrial competitive advantage for the firm and needs to be developed as a corporate strategy of the firm focusing in the issues of social, environmental and economics.

In this research, the term of Corporate Social Responsibility (CSR) will be defined such as: This space between the law and social expectation, expectation of stakeholders. To reach the social expectations of stakeholders companies need to be very creative in the integration of the economic, social, and environmental issues in the company’s sustainable strategy. To pursuit of sustainable development and the triple bottom line, social, environmental and economical is an opportunity for competitive advantage and, according to Michael Porter, CSR ethical behavior will generate ADD value, of Public as well and private companies in the long term, reputation. See the grafical representaiton at the end of this chapter.

3.2 Corporate Social Responsibility (CSR) overview

The topic of Corporate Social Responsibility, (CSR), today is becoming more important in the international business community at corporate level, improving the society and the competitive of the industry. Large amount of Corporate Responsibility literature shows that the CR concept has been changing to social aspects. In the past and less today, the analysis of the corporate responsibility has been addressed only to economic (profit). Business is becoming conscientiously that corporations are responsible for the economics aspects, -maximizing the wealth of share holders-, but also for the social and environmental aspects, considering in that way, other stakeholders, others evolved and affected by the corporate decisions process.

Most companies are facing, or will soon face, the challenge of maximising profits in a world increasingly focus maintaining social and environmental capital, as a voluntary action. Companies and financial companies are facing this challenge, moving beyond, taking active role in identifying the best opportunities from sustainable development. They are changing the role of the financial sectors in sustainable development. They are linking the core business strategy

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22 95% of CEO’s survey last year by McKinsey reported that society today have a more high expectation of business taking on public responsibilities that it was 5 years ago.
to sustainability, and they are identifying key issues improving strategy environmental and social performance.

Financial corporations in the sustainable framework are practicing voluntaries behaviour and action to improve the society in which they operate and manifesting their Corporate Social Responsibility (CSR). This (CSR) initiative according to the green book of the European Commission -European community, July 2001-, is defined as “voluntary firm integration of the Social and environmental concern in their commercial operation and the report with the part interested”. The phenomenon has a foundation in Anglo-Saxon initiative and is taking very important attention in the global economy.

In that way it is considered that organizations not only considering the share value creation; but also, they want to be industrially competitive, with concerns about corporate wealth - considering all groups of participants stakeholders in their operation (present and futures generations)- generating Additional Value (AV). Organizations (big companies, corporations) are sustainable ethical/social responsible compromise: *Incorporating sustainable strategy, a set of principles and values that get a framework for their making decisions process.* According to the chairman of Insurance Company, Generali, Antoine Berheim23 “we have expanded our social and environmental policy and make them more systematically to meet the expectation of our stakeholders” in Italy and in the countries in which the company operate. All of the companies in Spain, Austria, France and 40 companies in different countries share the same initiative. This has been a learning process, organizational learning process.

This corporate social initiative is a process of organizational learning and the result of this, corporation initiative is communicated by corporations in sustainable reports. They are manifesting their compromise but, it is important to look carefully the way in which the organizations are making explicit this sustainable compromise through out some instruments as: Ethics code, sustainable report, certification, political of corporate governance, additions to some regulations and guidelines.

When firms incorporate *sustainable strategy addressed to principles, values, in the process of making decisions under the social, economical and environmental framework* and additionally, explicit manifest their compromises to code of ethics, sustainable reports and others instruments, corporations can be beneficiated in financial terms when their share value

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23 Sustainable report 2006 of Generali Group, Insurance Company
increase, as a product of confidence generated by factor as a better perceptions of transparency, the best ranking (bets grading), a good reputation, the presence of code and politics that affect the generation of conflict of interest and corporate value for all group of stakeholders.

According to Insight investment, ethical performance best practices: ethical investors have traditional done more effective to work with companies to encourage better corporate behaviour, are responsible supplier channel management, incorporate human rights in their practices and so on (Insight investment, 2005). Mackenzie, head of investors responsible at Insight said “not only it is important the term share value creation, but it also determines the extend to which corporations deserve public trust and in turn, the extent to which the public should leave companies free to regulate their own behaviour (Insight investment, 2005).

In 2006, approximately, about one in every ten dollars of assets under management in the US – an estimate $2.3 trillions out of $24 trillions – was invested in companies that rate high on some measures of social responsibility. In 2007, 64% of the fortune Global 100 published a Corporate Social responsibility over pointing, their economic, environmental and social performance. Many companies as General Motors, Vodafone and Generali, now have a senior level or sustainable area which is in charge of directing the organization’s corporate social initiative.

Ethical Corporate management and directors are ethically and legally required to act in the best interest of the corporation, not only maximizing shareholder value but also looking at the effects on employees, customers, suppliers, the environment, the communities, in which corporation operate. Ethics need to be selected for commitment.

Companies have the right to make profit but also there are social entities that have a social responsibility. MNCs voluntary accept their social responsibility and adopt and practice international social principles and code (code of conduct) and to help to improve the societies in which they operate, they report this initiative in sustainable report annually. They have social responsible commitment that want to make explicit, for example Generali Ass its ethical code.

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26 Ethical code are a set of principles directions for corporations, they are a guide for behaviour of the corporation. To establish a Code is very important commitment to human right standards protection in business.
was published in 2004 and in the 2005 the first group sustainable report was published for 2004 until now -every year it is published the sustainable commitment-.

The lack of ethics/principles generate crisis. Currently the Global financial crisis is a lack of trust in the financial market, and an issue of long term value and excess of greed (desire to have more and more in economical terms). A need for corporate social responsibility and international principles is required to recover the current financial crisis an actions of global actors, governments and stakeholders. A new rethinking in the role of Corporations including in that group a financial institution is needed, thus, corporations need to apply Corporate Social Responsibility, (CSR).

Corporate social finance/Ethical finance, the new paradigm, is inspired on the International principles that were defined by Commission Brundtland of the United Nation in 1987, in which a sustainable development was manifested, that permit the satisfaction economically, environmental and social of the currently generation with out comprise the future generation development, thinking in a benefit for all collectively not only in the individual benefit, and also in the international principles and guidelines proposal by UN, European Commissions, and OCDE. It that way the finance not only should pursuit a individual unique profit objective, thinking in the owners of the financial activity, shareholders should also pursuit a collective benefit thinking.

In the financial markets, the theory of Modigliani and Miller has the foundation on: (1) the existence of an efficient and competitive financial market; and (2) in the maximization of the market value of the firm, that is based on the interpretation of the judgment of Investors in the financial markets in which it is immersed. And the long term judgment of stakeholders also needs to be considered.

Moreover, there is also an international level initiative as international index of backmarkers, that uses the same ethics standards in the sections of investments, and international agents ratings specialized giving some classification and appropriate score share, all of this proofs that there is increasing interest of the financial markets for sustainable development. It is confirmed that there are statistics that demonstrate that between 1998 and 2003 it was a growth in the patrimony and number in the ethical founds index: (1) Domini 400 Social Index (at KLD), (2) Dow Jones Sustainability Group Index (DJSGI), (3) Ethical Index Global (EIG) of the company.
E Capital Partners, (4) FTSE4GOOD (US, Global, Europe e UK) of the company FTSE. It will be explained in detail along this chapter.

Finally, this social responsible commitment is a benefit for the society, communities and for the MNCs. Additionally; there are several reasons for saying that there is a correlation between the practices of social responsibility by companies and profitability. This issue has addressed in the direction for example as the European commission had declared that the Social responsibility of the firm is an investment and not an expenses (cost) for the company at the same as quality control. Therefore, companies which manage their social responsibility effectively tend to be managed well in other areas too, and good management is the single most important factor in corporate profitability and it generates value for the company, Add value (aggregate value) for the firms and other benefits.

### 3.3 Benefits and cost for companies which behave social responsible:

“There are several studies that suggest that firms practicing good ethics and good corporate governance are rewarded by financial market, while firms practicing poor ethics and poor governance are punished” (Neal, Cochran, 2008). Cochran and Neal have been reviewed a range of recent public studies in financial fields. There is a big relationship between corporate social responsibility and Financial performance: (Orlitzky, Schmidt, and Rynes, 2003) found a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy, the benefits will be obtained mainly in the long term scenario.

Companies behaving social responsible (SR) address some benefits. They have not only their profit benefit (shareholder benefit) but also corporate wealth maximization for the shareholders and the other groups of stakeholders. This is a sustainable strategy that generates cost management in the creation. Moreover, the lack of corporate social responsibility (CSR) commitment generates higher cost management than the incorporation.

“For several decades, researches have investigated potential benefits may be achieved by business than defined their responsibility as extending beyond of the narrow perspective of maximizing profit” (Dane, 2004), Improving the competitiveness of the industry.
Cost benefit analysis as a very simple level may be regarding simply as a systematic thinking about decisions making linking that with the consequences of different courses of actions.

Firms continuously make decisions that increase their benefits. Considering that CSR is a voluntary behavior, corporations have the option: to choice act only responsible or social responsible. Economics are the sciences of making decisions that can represent expected benefit or expected cost. If the expected benefits are higher than the expected cost, corporation choose this action-shareholder oriented, being only responsible-. But this is no simple like this. Beyond of that, being social irresponsible scenario there is a systemic view of making decisions: there is a framework of international principles, benefit and cost are important decisions but also corporate wealth is important. The actions are conditioned to international principles. Corporations maximize the benefits and minimize the cost for their self and for future and present generations.

From being social responsible, an important expected benefit is ADD value for the corporation that is represented in corporate reputations and creating value thinking in present and future generation, corporations have identity, conscience-they are responsible citizens-, their values and principles are alienated with international principles to maximize corporate wealth. CSR is a value asset for the firms. This social responsible citizen is perceived by various stakeholders and “they react to the perceived reputation of a corporation and social issues in general” (Dane, 2004). Reactions could be viewed in terms of benefits of cost for the wealth of the corporation: According to (Dane,2004) there are “studies have show consumers’ preferences product (Jones,1997; C. Smith 1996). In addition, several studies have demonstrated that investor often prefers social screener investments funds (Stone, 2001).

Moreover, research evidence provides that people who are looking for a job prefer organization with social values characteristics, (Albinger $ Freeman, 2000; Backhaus Stone, & Heiner, 2002, Greening & Turban, 2000). It appears that stakeholders are influenced by general reputation. It could be a benefit positive reputation or cost negative reputation for the Corporation Wealth even though in cases in which it may not be obvious that social action has a direct impact on stakeholders.

Moreover, in the market, Corporate Social Responsible behavior has positive consequences, for instance in terms of reputation, good will, to behave responsible is an important asset for the corporation. Also these market positives consequences/rewards are reflected in employees and
customer fidelity. According to Mainelli, corporate rewards/positives consequences can be seeing from two perspectives: “carrots for success and freedom from sticks. Freedom from sticks includes not being subjects to NGO attacks, not having government impositions, not being boycotted from regions of market or not losing key employees with different ethical values and Carrots for success might include good public relation, brand enhancement, access to contract with CSR requirements, positive relation with NGOs or attracting higher-quality staff at lower rate” (Mainelli, 2004). Stakeholders care about CSR: “according to some estimation responsible investment funds have grown in five years from £200 millions to over 10 millions and continuous rapidly growing. Also, in commercial organizations it has been distracted that CSR increase in shareholder value” (Mainelli, 2004). According to FTSE4Good index a company addressing environmental and social issues could get benefits on: Management risk, Reputation, Cost saving, Brand Marketing, License to operate.

Some benefits that a company can get are:

1. Positive effects on company image and reputation

In the topic of company image related to brand differentiation, CSR corporate social responsibility can play a role in building customer loyalty based on distinct ethical values. Several brands as a co-operative Group and the body Shop are built on ethical values. In reputation business services organizations can benefit too from building a reputation for integrity and best practice.

2. Positive effects on motivation, retention (permanency) and recruiting of employees

Basically this benefit is based on loyalty and selections of the best employees. This aspect is related to Human resources. It means that a CSR programme can be seen as an objective to recruitment and retention. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help to improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering.

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27 Michael Mainelli is a director of risk/reward consultancy Z/Yen and Mercers’s School Memorial Professor of Commerce at Gresham College.
3. Risk management

Managing risk is a central part of many corporate strategies. Reputation that takes decades to build up can be ruined in hours through incidents such as corruption, scandals, low ethical values, environmental accidents, social, fairness, employees abuses, child labor and so on, lack of control on suppliers. Those events also can drive especial attention from regulators, courts, governments and media. Building genuine culture based on ethical, values and principles issues of doing the right thing within a corporation can avoid and decrease these risks.

4. License to operate:

Corporations are keeping avoiding interference in their business through taxation or regulation. By taking substantive voluntary steps, they can persuade governments and the wider public that they are taking issues such as health and safety, diversity of the environment seriously, and so avoid intervention. This also applies to firms reach profits. Those operations away from their home country can make sure they stay welcome by being good corporate citizens with respect to labor standards and impact on the environment.

Benefits, business from CSR, have been analyzed in theoretical and empirical studies, according to Dante Pesce\(^\text{28}\) the benefits for corporate social responsibility could be classified in: commercials, labor force, legal and financial:

1. Commercial: Improve the company reputation and public imagine, decrease reputation risk, facilitate the access and the competition in the global markets, increase the sales when it is possible to establish differentiate products, create the fidelity among customers.

2. Legal: Increase the understanding of the regulation and the requirements, and decrease the pressure of the fiscal entities and entities that are in charge of monitoring and control.

3. Labor force: Facilitate the recruitment, contract and permanency of the best talent and employees

4. Financial: Increase the confidence of the shareholders, investors, create added values for the company, risk mitigation, facilitate and reduce the cost of financial aspect.

Moreover, according to a study developed by Centre of Corporate Citizenship at Boston College and in collaboration with American productivity and Quality Centre to 30 Firms -that in theirs practices act with social responsibility, (SR) - concluded that acting (SR) create ADD VALUE in the following aspects:

- Improve firm reputation 93%
- Support employees communications (cultural environment) 83%
- Support to human resources 74%
- Support and overcome potential crisis 73%
- Support of the publicity (marketing) in the communication channels 72%
- Support the relationship with the governance 66%
- Increase the sells 58%
- Reduce the expenses (cost of the company) 50%
- Support the relationship with stock holders 44%

The positive impact in each of this variables has direct incidence (is reflected directly) in an increment of the of firms’ profits (revenues), rising the wealth of the shareholders, but also the other groups of the stakeholders as governments, employees, customers and so on. The sustainable social responsible commitment has incident in the company reputation, reducing or increasing the reputation risk, adding a cost or benefit for the corporation.

Social responsibility is a value intangible long term asset, it is an asset which claims to some futures benefits, that decrease or increase futures cash. According to CAFOD, recently studies suggest than more of 70% of the value of a multinational is attribute to intangible assets such a reputation. The proportion of a company's total market value that exceeds its book value has increased from 40% in the early 1980's to over 80% at the end of the 1990's. This means that only 20% of a company’s value is reflected in the accounting system.

The interest for SRI, social responsible investments o ethical investments that regards corporate social responsibility, is the business objective, of the creating a long term not only shareholders value but also, stakeholders value paying attention to the dangers that the economics systems create.

A lack of CSR/ethics-sustainable strategy, management generates the opposite effect in the company a cost, a management cost, bankruptcy and so on: for instance in commercial that is the first categorization, could be manifested in decreasing the company reputation and public
imagine, and increasing the reputation risk and so on. “Enron is an example of corporate social irresponsibility” (Cochran, Neal, 2008) from 1998 to the end of 1999, Enron had been one of the stars of the financial market. Then, in only one year it collapsed. The firm went from having a market capitalization of over $60 billions in January 2001 and one year later went to bankruptcy. How it happened, a lack of financial transparency and accounts fraud.

Corporate performance/behavior is ranked and prized by the market and it gives recognition over other; but on the other hand when an irresponsible choice is made, the corporation needs to assume the consequence and costs are generated.

According to Rowley and Berman, when a company is perceived negative by stakeholders, they can take actions that have negative consequences in the financial performance. Social negative consequences in financial performance, for example bodies protest in a third world country against poor labor practices as child labor (Nike case); it will be expected negative financial impact and low reputation.

3.4 Evolution in the concept of corporate social responsibility

The concept of corporate social responsibility was popularized by Freeman in 1984 (with his book strategic management, a stakeholder approach). Previously, social responsibility was motivated by the experience of the great depressions and the Second World War and further development taking care about of devastating consequences of imbalance of corporate power as environmental and health problems and even deadly consumer product, (Nestlé’s Infant Formula Case29), inhuman working conditions and so on. As a consequence of this imbalance situation, CSR criticisms have been raised moral issues and consciousness by media pressures and agents groups, NGOs, International bodies, consumers and so on.

The stakeholder concept began in the management litterateur via internal memo at the Stanford research institute in 1963. It is possible also; observe business leaders were taking about stakeholders before 1960s. Dodd (1932) cities GEC defined four groups to lead with during the 1930s (shareholders, employees, customer and the general public), Moreover, Priston and Sapienze (1990) cite Johnson &Johnson as identifying customer, employees, manager and the general public in 1947, and Sears listed four parties to any business of their importance as

29 To see Nestlé’s Infant Formula Case consult (Hoffman, 2001, pp. 503-509) and chapter 1 Business and corporate social responsibility
customer, employees, community. A large amount of these cases under label of stakeholder theory were developed early under label of Corporate Social Responsibility, CSR or Corporate Social Performance, CSP. Social responsibility is referring to the balance de interest of multiples stakeholders (Friedman, Miles, 2006).

John is taking about a very strong instrumental theory for stakeholder management by argument that a subset of ethical principles (trust, trustworthiness, and cooperation) can result in significant advantage (John, 2005). Additionally, to these very important principles, and fundamental principles that John mentioned, other ethical and international principles need to be considered, because organizational principles are international, for example the principles and guidelines proposed by UN, EU, and OCSE.

John argue that honesty, trusting and ethical relationship result in a positive reputation effects and maximize opportunism as contracting parties interact and grow to depend in their reliability behavior of their business parties. This voluntary but genuine trust building further rewords. They are positive responds and server to build opportunisms. In other words we can affirm that these opportunisms mean firm competition advance. People, institutions who are honest demonstrated personal integrity, do not lie cheat or still and are commented and desirable to partners for a long term economical relations.

John argues that this behavior can be measured in competitiveness advantage and “because ethical solutions to commitment problems are more efficient that mechanisms designated to curb opportunisms, it follow that firm that contract through their manager with the stake holders on the bases of mutual trust and cooperation will have a competitive advantage over firm that do not” (John, 1995, p. 422). As applied to global corporate responsibility, certain types of corporate social performance are manifestation to attend and to establish trusting cooperative firms/stakeholders relations) and should be positive linking to a company financial performance” (John, 1995)

Petrick and Quinn argue “Business leaders and organization with high integrity capacity are more likely than competitors to be aware of and more rapidly respond to stake holder moral concern arrive at moral decisions that form sound policy and build supportive systems that support excellence.” (Petrick, Quinn, 2001, p. 332). In that way, long term competitive advantage is the result of internal management skill and asset both tangible and intangible, and integrity capacity as intangible asset is easy to over look in today’s fast-paced global environment. Enhance integrity capacity can contribute to the global sustainable competitive
advantage of firm, whereas its current neglect has dysfunctional consequence” (Petrick, Quinn 2001, p. 340) providing leadership and education and expanding the scope of accountability will result in more balance organization making.

The corporate literature shows significant contribution to understand Social Corporate responsibility, (Hoffman, 2001), (Friedman and Miles 2006). Friedman and Miles consider that in this significant contribution to corporate social responsibility for example Berle and Means mention that corporate property should be considered as a public, but they mention that the most important and significant contributions to the field CSR have been proposed by Carroll (1979) who said “social responsibility of business encompasses the economics, legal, ethical and discretionary expectation that society has of organizations at a given point of time” (Friedman, Miles, 2006, pp. 22). There is a term order according to the role of the evolution importance:

- Discretionary: The idea is that society does not have clear message for business but there are expectations that business should assume a social role such a, philanthropic contributions in house programs for drugs abuser day care for working mothers.
- Ethical expected of business by not codified in the law and ill-defined
- Legal thought of as partial fulfillment of the social contract
- Economics to produce well and service, that society wants and to sell them and get profit

The priorities of evolution are changing according society changes; the economic part (profits) is not considering that social issues play a very important role.

The society changes and the priorities of the society are also changing. Corporations must be adapted to requirement and necessities of the society. Early emphasis was in economic, then in the legal, then ethically (coincidently) commitment and recently in discretionally: The concept of social responsibility should content several aspects in important measure.

In the practical way, CSR has rescued oral issues (media pressures, forums and so on) and has raised consciousness. In the literature, it is mentioned that part of the meaning to be a responsible citizen is exercise social consciousness and public services, obey the law and so on (Hoffman 2001) toward to common wealth-corporate wealth, reciprocal corporations. In his point of view the relationship with the part affected and the corporation’s stakeholders is reciprocal. It was mentioned that Freeman and Reed (1983) distinguish 2 senses of
stakeholders. The “narrow definition” includes those groups who are vital to the survival and succeed of the corporation and, the “wide definition” includes any kind of individual who can affect or is affected by the corporation.

According to Friedman and Miles, it is very clear for corporation to consider social issues without be part of legislation of regulation, but suggest that this is an unstable situation and that in the long run legislation or regulation will be implemented. Social Responsibility “began where the law ends” (Friedman, Miles, 2006, pp.2). A firm could not be considered socially committed if at least it is not behaving according with the requirements of the law and also going further than that adopting international guidelines. Of course, guidelines that further could be become law.

International guidelines should be considered as international guidelines that will be focus on improving the competitiveness of the industry, and reduce the negative impact of business on the environmental and society; guidelines that improve the competitiveness of the industry rather only remark to avoid the negative impact of business on the environmental and society” (The European Coalition for Corporate Justice (ECC), 2006), and seeing the benefits of the all group of agent with which the corporation interacts. In this sense, international bodies as Unite Nations, UN, European Union, EU and Organization for Economical Co-operation and Development (OECD) are developing useful initiatives, rules and guidelines for companies; international common principles which are addressed to the common wealth, in a systemic way toward to improving the competitiveness of the industry.

At the level of the European Union, the interest in "Corporate Social Responsibility" is increasing over the past few years, European Parliament with the Resolution in 1999 promotes the European responsibility related to multinationals and voluntary codes of conduct and in the European levels an incentive of European Monitoring Platform is getting stronger. The Council and the Commission are making a remark for legal measures to monitor multinationals. Moreover, Social Responsibility European Initiative is presented in the resolution related to Green Paper, created in June 2002 by Parliamentarian Richard Howitt and called -Green paper-. This resolution calls for new legislation to require companies to publish annually reports about their social and environmental performance. There is a need for a way to handle ambiguously, there is a need for understanding what it means social responsibility.

30 Andrew L. Friedman is professor of management and economics at the university of Briston and management director of the professional association Research network (PARN). Samanth Miles is a reader in accounting and financial at the business School of Oxford Brookes University
A recent article on corporate social responsibility in (The Economics, Jan 17th 2008) indicates that definition of corporate social responsibility is addressed to helping society –Marks & Spencer, one Britain’s leading retails they describe CSR progress in term of social plans- the company will help 15,000 children in Uganda giving a better education and so on, also it has recycled 48m clothes hangers-.

According to this article it is demonstrated that CSR is “booming” when “electronics screens, posters or glossy reports big companies want to tell the world about good citizen they are pushing out the message on their web sides and in advertising campaign” Moreover CR is linked to voluntary actions in community for example helping the people with lack of economical resources to salving world. Corporate Social Responsibility, CSR is becoming a very important issue in the international, regional a local business community at corporate level. It is noted that corporations have responsibility not only for the economical part but also for the group of agents in which they operate. This is a company volunteer initiative in actions as improving the local community, looking after employees properly, helping the poor properly, and helping the most vulnerable people with education, house solutions and so on.

Corporations incorporate their social responsibility in their identity/citizenship, in their strategy that is a framework for making decision process. This incorporation is known as sustainable strategy, manifesting their social commitment, their social responsibility, the sustainable business, or corporation citizen31.

The interest in sustainable business is increasing. Mark and Spencer a English retailer has demonstrated that social responsibility is a booming, through electronic screener, poster or reports companies want to tell the world that they are a good citizen, according to the economist, Jan 2008. They are pushing out the message in the web side and in advertising campaigns, the company’s leader’s divulgate publicly through conferences their compromises with the community. It is demonstrated that the corporate social responsibility is an important objective that is increasing in the global executives32 (See figure 3.1):

Figure 3.1 Degree of priority given to Corporate Responsibility
Source from The Economics, corporate social responsibility, just good business, Jan 17th 2008

31 http://www.economist.com/blogs/theinbox/2008/02/just_good_business_january_19t_2.cfm
32 To see a complementary information consult http://www.economist.com/media/pdf/20080116CSRRResults.pdf
Currently, there has been a growth of interests in theses international, local and regional context in the topic of CSR, such as UN, European community, NGOs, consumers and so on. Governments are taking a big interest in Britain the 2006. Companies Act introduced a requirement for public companies to report on social and environmental matters. The United Nation promotes corporate responsibility around the world through the New York group called the Global Compact.

Business schools are creating courses and programs. For example, St Galen University is creating the first PhD in Corporate responsibility; others are creating classes and departments on corporate responsibility.

- The philanthropy is important in the corporate social responsibility

The philanthropic is important for corporate social responsibility concept because it could be a competitive advance for corporation and for the society according to Michael Porter and Mark Kramer that in 2002 Harvard Review, make references “It is seeing that increasing, philanthropy is used as a form of public relations or advertising, promoting a company's image and reputation through high-profile sponsorships”. But there is a more truly strategic way to think about philanthropy. Corporations can use their charitable efforts to improve their competitive context--the quality of the business environment in the locations where they operate-. Using philanthropy to enhance competitive context aligns social and economic goals and improves a company's long-term business prospects. This important mechanism for institutionalizing social responsibility is in fact improving societies.
The philanthropic activities of corporations are extremely significant to pro-social responsibility advocates for both practical and symbolic reasons. During 1992, U.S. corporations donated nearly $6 billion to charitable causes. Although this number represented a 1 percent decrease from the previous year, the first decline since the depression, its sheer magnitude underscores the practical importance of charitable giving to our economy.

Taking this new direction requires fundamental changes in the way companies approach their contribution programs. Adopting a context-focused approach requires a far more disciplined approach than is prevalent today. But it can make a company's philanthropic activities far more effective. Beyond the enormous material impact large contributions can have on local communities, corporate philanthropy serves a second function. By engaging in these activities, and through careful public relations, a corporation can successfully communicate its vision of corporate citizenship.

3.5 Corporate social responsibility International Perspective:

CSR as a rapidly developing business strategy (and not simply a theory in the management literature) is a response to globalization and the extension of global multi-national enterprises (MNEs) across countries. With the globalizations different individuals, corporations and countries and so on were beneficiated more than others in this process. The rules, ethical principles were necessary to keep a balance.

Today, the perceptions of CSR tend to be no homogenous concept in the global environment. These different perceptions and definition of what CSR should mean from a number of different societies across the world. It is considered a voluntary behavior that according to European commission: CSR is addressed to promote a framework for the company social responsibility, (18.7.2001 –COM/2001 – 366). Today, Corporate Social Responsibility, CSR-RSI, this voluntary behavior has a subjective approach very diffuse.

An ethical approach is becoming very important today. There are several methods for applying these ethical rules and principles, for example an approach is through out ethical code that shows company values and principles; other approach is based on the satisfaction stakeholder’ interest satisfaction internationally. From the academics perspective, stakeholders’- the environment and corporate governance are becoming very important issues in an international, regional and local context, including different approaches.
International guidelines and principles are defined to keep the society balance, by UN, OECD and European Union. This international body’s communication of social responsible initiatives tries to homogenize the concept. The different type of organizations that compound the “non profit world” international institutions to local administration are adopting social responsible framework. Other kinds of institutions like corporate foundation are assuming a very important role in balancing internationally different interest and diverse language acting as a mediator in this context” (Rati, 2006).

Although the unification in the concept is trying to be addressed in international environment still there are different perceptions. It is seen that In the United States, CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving. Currently is becoming an initiative to care about environment in the responsibility of Democratic Party.

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons, in that way social responsibility becomes an integral part of the wealth creation process and if this is management property should enhance the competitive of business and maximize the value creation to society point out and, moreover when times get hard this previous constant practice of the CSR creates employees and customer loyalty, if this is a philanthropic issue in this period is the first thing that firms think to take away point out Mallen Baker. European Parliament with the Resolution, 1999 promotes the European responsibility regarding to multinationals and voluntary codes of conduct. Moreover, Social Responsibility European Initiative in the Green Paper, June 2002 calls for new legislation to require companies publishing annually reports about their social and environmental performance.

However, as with any process based on the collective activities of communities of human beings (as companies are) there is no "one size fits all". In different countries, there will be different priorities, and values that will shape how business act. For instance, in Germany to understand the system of corporate governance in which companies work in any country an also in Germany it is important to analyze the structure and the dynamics, it means not only in the legal framework but in personal relations (Charkman, 1994, pp. 6). Moreover this understanding applies to corporate social responsible system. Thinking in a systemic point of view it could be
understood in the network of relationship –considering all of company’s relationship-interactions could be summarized with the stake holders- and addressed to cooperation.

In the spectrum of confrontation at one and cooperation at the end, Charkman locates German behavior in a cooperation tendency. This tendency to cooperation is a consequence of historical reasons: war, invasions and destruction and so on Germans gave importance to co-operation and order experiences. There is competition between companies but not obsessive, the predominant behavior is cooperation.

In the UK, (CSR) was a government initiative in promoting CSR. In 1996, the Blair administration promulgated regulations, since followed by Belgium, France, Germany and the Netherlands, that require the trustees of occupational pension funds to adopt Statements of Investment Principles detailing the way social and environmental information is taken into account in constructing investment portfolios. This law has had an important effect on the behavior of the largest pension funds, causing them to ask questions of asset managers about their CSR records, and in turn fuelling greater interest in, and investment in, socially responsible investment (SRI).

Industry in Canada promotes CSR principles and practices to Canadian businesses because it makes companies more innovative, productive, and competitive. CSR helps make Canadian business more competitive by supporting operational efficiency gains; improved risk management; favorable relations with the investment community and improved access to capital; enhanced employee relations; stronger relationships with communities and an enhanced license to operate; and improved reputation and branding.

Canada has a significant degree of CSR, governments are commitment, the Canadian international development Agency, Department of Foreign affairs, Export development Canada, Industry Canada, NGOs activities, media roll, educational programs. In Canada and in the US there is a significant private sector activity, including private companies but the role of the industrial association and independent organizations, or club of business professional. Mexico has the topic also well developed it recognizes for the Public business program, it could be because a deeply integration into business American practices and business training norms training as a results of North America Free Trade Agreement (NAFTA). These countries have also nationals contacts points (NCPs) charging with the promoting the organization for
Economics cooperation and developments (OECD) guidelines for international enterprise and in Mexico there are a lot of organizations promoting the CRS through the mining industry.

With respect to developing countries, one predominant CSR concern is that governments will ignore corporate responsibility or refuse to enforce protective labor or environmental standards in the law as an inducement to foreign investment (Aman, 2001). China, for instance, has strong rights to collective bargaining, by law, and yet thousands of people in jail for trying to exercise those rights (Diamond, 2004). Yet, some developing country governments are promulgating laws requiring higher standards of responsible environmental or social conduct in order to compete for foreign capital and institutional investment, in addition to competing on the more familiar “rule of law” issues of contract and property law rights, financial transparency, intellectual property protection, and reduced government corruption (Hebb & Wojcik, 2004).

Comparing these legal developments in different emerging economies would be valuable as a basis for further understanding of the relationship of law and development and of the contribution of CSR, if any, to economic development. Chappel and Moon (2005) have found that CSR in Asia is unrelated to the pre-existing levels of economic development, but is related to the extent to which domestic companies engage in international trade, even where that trade is with other Asian nations. Conversely it would be useful to study whether “imports” of CSR standards into developing countries lead to greater economic development or enhance rule of law norms.

Although the concept is new in South America and there are many thing to do, the concept, which is getting stronger, is focusing to the environment, social and economical aspects. Argentina, Chile and Brazil are leading the initiative following by Colombia. In this countries it seems low private sector participation, and low government involvement. Government promotion indicators, we see increasing involvement of multilateral organizations, especially the United Nations Development Programme (UNDP), which has been promoting the Global Compact in the region. Public awareness is still important, but is largely confined to some NGOs working on promoting CSR and the existence of some university or college programmes that include courses or sections of courses on CSR (Haslam, 2004). In Ghana, CSR “is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government” In Philippines "CSR is about business giving back to society". According to the study of KPMG survey on CSR in 2008 it was showed how the CSR is perceived in different countries:
Table 3.1  CSR Reporting Information by International Countries,
The information included in this table is a source from KPMG, (KPMG, 2008)

<table>
<thead>
<tr>
<th>Country</th>
<th>Information</th>
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<tbody>
<tr>
<td>Australia</td>
<td>Public disclosure of sustainability-related information is increasingly on the agenda for Australian companies, with reports being developed with boardroom input and reviewed by mainstream analysts. Climate change has been a key driver of the sustainability agenda along with the introduction of the National Greenhouse and Energy Reporting System (NGER) and the Carbon Pollution Reduction Scheme (CPRS) by the Australian government and the revision of the Australian Securities Exchange (ASX) Principle 7, which now includes the consideration of sustainability-related issues as a material business risk.</td>
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<tr>
<td>Brazil</td>
<td>The sustainability has become a major part of local discussions in this country. Brazil’s industrial growth has had a profound impact on environmental and social infrastructure, and local companies are conscious that strong transparent communication with their stakeholders is essential to sustainable development.</td>
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<tr>
<td>Canada</td>
<td>In the past 18 months there has been an unprecedented increase in media attention focused on sustainability issues. Regulatory responses to climate change are a key topic in provincial and federal election campaigns. Securities regulators are also showing increased interest in the quality of disclosure on environmental risks. Within this context it is no surprise that the number of large Canadian companies preparing corporate responsibility reports has increased to 60 percent, up from 41 percent in 2005.</td>
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<tr>
<td>Czech Republic</td>
<td>Although it may seem that corporate responsibility issues have not been a priority for companies in the Czech Republic, a growing awareness of the importance of corporate responsibility has been visible in the business community.</td>
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<tr>
<td>Denmark</td>
<td>This is the analysis for Denmark as part of KPMG’s sixth International Survey of Corporate Responsibility Reporting. The findings of the survey and the development of corporate responsibility reporting in Denmark are discussed below. Overall, the survey findings indicate that corporate responsibility reporting and a higher level of transparency is about to become best practice in many countries and sectors.</td>
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<tr>
<td>Finland</td>
<td>The corporate responsibility reporting landscape in Finland has evolved over the past few years. Of the top 100 companies, based on revenue, the majority reports on corporate responsibility issues at least on some level. The eagerness of different sectors to report varies, as does the format of the reports. On the whole, a lot has been achieved, but as reporting practices and standards develop alongside growing expectations of stakeholders, it is important that Finnish companies make sure they keep up.</td>
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<tr>
<td>France</td>
<td>According to the 2008 KPMG International Survey of Corporate Responsibility, 83 percent of French N100 companies report on corporate responsibility. Although laws such as the New Economic Regulations Act (NRE 2001) require this information in the financial reports of listed companies, it is by choice that almost half of these companies issue the information in a separate report. It is in these reports that companies disclose their policy on corporate responsibility, the systems they have in place to implement it, as well as performance indicators for achieving their goals.</td>
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<tr>
<td>Hungary</td>
<td>The growth of corporate responsibility in Hungary has accelerated significantly since the accession to the European Union in 2004. Companies with different corporate cultures, approaches, and drivers for reporting are more and more active in the field of corporate responsibility, but there is still room for improvement with local stakeholder engagement, integration, and transparency. Media, government, and civil society are generally speaking considered to be the key promoters of the development of corporate responsibility, both as a business reporting practice.</td>
</tr>
<tr>
<td>Italy</td>
<td>During the last few years, Italian companies have paid increased attention to corporate responsibility issues. Italian companies have started to make the link between corporate responsibility and risk management, and to develop sustainability strategies aimed at avoiding different kinds of risks, especially reputation ones. On the flipside, they have also begun to find new opportunities through corporate responsibility. However, the road to full integration of corporate responsibility in business strategy is still long, and tools for incorporating it in business processes need</td>
</tr>
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improving.

Japan
Companies in Japan are keenly aware of corporate responsibility, with 99 percent of its N100 companies reporting on corporate responsibility issues in either stand-alone reports or in annual reports. Regardless of sector, corporate responsibility reporting is an expected practice of any national or multinational company in Japan. However, external assurance has not yet taken hold in a significant way.

Mexico
With almost two million square kilometers of territory and 110 million people, Mexico is the fifth largest country in the Americas and the 12th largest economy in the world, with strong commercial relations with the US. Corporate responsibility practices in Mexico are evolving from philanthropic efforts to standards-based reporting with corporate governance practices for stronger transparency and accountability to both shareholders and the wider community.

Romania
This is the first year since the inception of KPMG’s International Survey of Corporate Responsibility that Romanian companies have been surveyed. One of the most significant findings of the survey was that there was a difference in commitment to corporate responsibility reporting between multinational companies operating in Romania, which are more active in reporting, and Romanian-owned companies, which have less interest. This result could indicate that Romanian companies are less mature than global companies when it comes to disclosing non-financial information voluntarily.

South Africa
Sustainability reporting in South Africa is influenced by three major factors: the extent of a company’s environmental impact, its size, and its exposure to international markets and investors. This is due to the fact that companies with large, quantifiable direct impacts face more pressure to report (e.g., the mining sector), and large companies have more discretionary funds to support reporting. Multinational companies, companies that operate in international markets, or companies with an international investor base, produce reports in line with sustainability best practice.

Spain
Corporate responsibility reporting has come a long way in Spain in the last few years. However, in comparison with countries where reporting is more well-established, there is room for improvement. Spanish reporting companies place high importance on assurance. With more than two-thirds of reports assured, Spain ranks second in the survey in percentage of reports assured. However, still one-third of the largest 100 companies in Spain do not report on corporate responsibility at all.

Sweden
Since the last KPMG survey in 2005, the number of Swedish companies in the N70 that publish a sustainability report has more than doubled. This might be a result of the increasing interest from stakeholders, due to the focus on climate issues over the last two years. Today companies are more aware of their impact on the environment and on the communities where they operate than they were three years ago.

Switzerland
Based on this survey, the Swiss N100 companies can be divided into two distinct groups. The first group represents large multinationals at the forefront of industry best practices, including corporate responsibility reporting. The second group represents relatively medium-sized companies that are just beginning to formally adopt sustainability and corporate responsibility reporting. Assurance of corporate responsibility reports is a relatively new phenomenon in Switzerland and only a small number of companies have implemented this.

The Netherlands
Some of the Netherlands’ major companies started early with reporting on social and environmental impacts - back in the 1990s. This growth slowed down over time, however, and in 2005 Dutch companies were in the mid-range of global corporate responsibility reporting. Over the last three years, however, there has been a clear shift in the Dutch corporate world, with 60 percent of companies now reporting on corporate responsibility, putting Dutch companies in the top ranking of corporate reporters.

UK
This is the analysis for the UK as part of KPMG’s International Survey of Corporate Responsibility Reporting 2008. The Survey continues to be a useful source of information for both our clients and the market in understanding the changing nature of CR reporting. Almost every FTSE 100 company now reports externally on CR in some form, with this becoming increasingly embedded into UK business operations.

The US
KPMG’s International Survey of Corporate Responsibility Reporting reflects the growing importance of corporate responsibility as a key indicator of non-financial performance, as well as a driver of financial performance. In the latest survey, we have noticed a significant increase in the publication of corporate responsibility reports in the US,
Companies in international environments are reporting their CSR commitment. The reporting of the companies and the communication are increasing. Some of the companies report the CSR alone in a report others integrate it in annual report. According to the survey to G250 companies in international environments made by (KPMG, 2008), companies show some of the following tendency.

**Figure 3.2 Companies integrating corporate social responsibility reports by Countries 2005-2008**

This source of information is used with the authorizations of KPMG, (KPMG, 2008)

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### 3.6 Corporate Social Responsibility to a new direction

The literature and Corporate Social Responsibility (CSR) could be categorized in two main views basically: traditional and modern ideologies. Let’s start saying that in America, *traditionally*, the major responsibility of the corporation is to produce goods and services and to sell them for a profit. According to Milton Friedman one of the strong exponents of the *traditional ideology* the most important issue for responsible business is to *increase business profits*, it is considered the *legitimacy* of business to exist in the society.
The classical view of economics has the rational actions that consist in the choice of the best ways to satisfy individual preferences that is translated into the maximizations of the share holder’s wealth maximization in the making decisions process. Recently, this traditional view has been questioned, businesses have been asking not only to refrain for harming but also to contribute actively and directly to improve public well being. In that way business are expected not only to obey the requirements of the law but also to go beyond the demands of the law and exercise ethical/social responsible making decisions, giving directions to a modern ideology.

In the modern new view, the main objective is the collectively wealth maximization, it means not only the share holders maximization wealth but also, the wealth maximizations of other groups that have direct or indirect relations with the firms, those are the stakeholders. This is a systematic view to think in the activity of the organization as a whole.

3.6.1 Why CSR conception is changing? And how corporations are responding to this change?

In the concept of the traditional view businesses are considered for producing profits for the owners, they are private property mainly designed to make money base on that:

- The own corporations feel that they are not fixed in this Businesses schema – addressed only to profits: Searching for a sustainable strategy in order to get advantage competitive in the industry.

Companies need changes for their competitiveness and satisfactions of society’s demands and changes of the globalizations. For that reasons, Corporation are incorporating social responsibility as a key for their strategy, as a company driver in the long term performance. Creating a competitive sustainable strategy, - competitive strategy, refers to how companies compete in a particular business, how companies can gain a competitive advantage thought a distinctive way of completive. According, Michael Porter, the essence of strategy is choosing a unique and valuable position to be competitive. These valuable positions reached by a sustainable strategy will give the corporation the capability to respond to society expectation, manage new risk as a reputation risk, being profitable, being competitive in a global economy and responding to the pressure to rebuild a public trust.
Organizations are defining Sustainable strategies that are concerning about economic, social, environmental and philanthropic aspects. According to Carlo Bozzoti -chief executive officer of ST microelectronics, in the Corporate responsibility a Culture for sustainability excellent, (sections of vision and strategy)-, he makes explicit that for them the topics of Corporate responsibility is important, ST microelectronics is maintaining the intensive and long extending focus on corporate responsibility, creating value for their stakeholders, -that is their definitions for sustainability excellent- in their core of their values, some of them are: Energy consummations for units, excellent plan for medical insurance, 95% of employees have been trained in corporate social responsibility, the important corporate ethical commitments\(^33\).

Considering that Corporations are entities that interact with others - Corporation, Government, Local communities and so on- to create and work together to defining corporate policy, make corporate decisions, and execute corporate actions corporations are called to improve and decreased social deficiencies. In other words, corporations have goals, values, interests; strategies (Hoffman, 2001) and inside of these goals, values, interest, strategy and so on corporations have a key role in social responsibilities. They are redefining their roles and responsibility in the society and making conscience that they have not only one objective that is to work for their economics function but also for the wealth of the society.

Corporations as social entities, in the globalization process, are incorporating in their Sustainable strategies and strategies and making decisions the frame work of values, principles, to be economical, social and environmental competitive, they are -sustainable- with a high standard of social responsibility\(^34\) and corporate governance. These issues are very important at the international, regional and local context. International bodies as Unite Nations, UN and European Union, EU are developing initiatives, rules and guidelines for companies; international common principles which are addressed to the common wealth, that could be analyzed as a corporate wealth, the maximization of the wealth of shareholders but also to the

\(^{33}\) To see more information consult the website CR ST Microelectronits 2007 at http://www.st.com/stonline/company/environm/report07/cr07.pdf

\(^{34}\) According to European commission: to promote a framework for the company social responsibility, (18.7.2001 – COM/2001 – 366). Corporate Social Responsibility, CSR-RSI, represents the voluntary behavior that companies assume to contribute to improve the society and the environment. Today this voluntary behavior has a subjective approach very diffuse. There are several methods for applying this ethical rules and principles, for example an approach is through out ethical code, that shows company values and principles; other approach is base on the satisfaction stakeholder’ interest satisfaction, from the academics perspective, stakeholders’ theory from, 1984. A 3rd approach is following the recommendation of the European commission, Social responsibility to sustainable development. Brussels 2.7.2002 – COM/2002 – 347 that includes integral principles from UN and OCSE.
other groups of the stack holders. Social responsibility is an issue that is becoming more important in international environments.

- **Globalization issues**

With the Globalizations, technological innovation has been increased and the number of corporations, almost double from 37000 in 1990 to over 60000 today with some 800000 foreign affiliates and millions of supplier and distributor operations along their supplier chains, there are a lot of opportunities but also some weakness in corporate governance and structure are present (Nelson, 2005). It has also resulted in new competitiveness risk and lead to increase demand for corporate responsibility, transparency and accountability.

With this globalization corporations as international entities have been called to respond for the social commitment, the power is focused in the external part, they have become aware of external cost – pollution, hazardous products, job dissatisfactions, and so on - All of these issues are affecting their reputation addressing to reputation risk. The power of the reputation is increasing externally. How? Corporations are rebuilding their reputation; they are incorporating values for performance improvement.

With the globalizations, it is required an important review in the practices of financial and economical aspects, considering the development not only economically but also in the social and at the institutional level. Some reflections for this study are supported in the relationship between ethic and economy of the Nobel Price Amartia Zen (Sen A, 1998). Moreover, the globalization introduces new risks and globalize financial markets are more vulnerable and instable. Physiological and political factors affect share prices. All of this increase

- **International interest and common principles:**

At the level of the European Union, the interest in "Corporate Social Responsibility" is increasing importance over the past few years; European Parliament with the Resolution in 1999 promotes the European responsibility, in the topics of multinationals and voluntary codes of conduct. In the European levels an incentive of European Monitoring Platform is getting stronger. The Council and the Commission are making a remark for legal measures to monitor multinationals, European commission35.

35 To see more about this topic consult : [http://ec.europa.eu/enterprise/regulation/better_regulation/index_en.htm](http://ec.europa.eu/enterprise/regulation/better_regulation/index_en.htm)
The European Initiative of social responsibility was launched with the resolution related to Green Paper, created in June 2002 by Parliamentarian Richard Howitt and called -Green paper-. This resolution calls for new legislation to require companies to publish annually reports about their social and environmental performance. An economical sustainable development is necessary, that it was persuaded in the beginning by Brundtland Commission of the United Nations in 1987 a development that allows the satisfaction of economic, environmental and social needs of present with out endangering the development of futures generation. In the academic level, this social responsibility is supported by a Nobel Prize awarded to Amartya Sen. He mentions the importance between ethics, and economics and citizenship and, social commitment and financial conservatism to improve society.

Moreover, social responsibility is gaining an international importance and dimension. International agencies and bodies are creating a set of international rules and guidelines helping in the development of a society where organizations operate, some of these social responsibility rules and guidelines, are reflecting in new frame works labels responsible website, ethics code and conduct code, social report as -Generali group-, agent rating are emitting measure of responsible/sustainable performance, which are reflected management and corporate governance as an indicator of good performance and reputation. In the practical way these labels of social responsibility –sustainable- are reflected in sustainable institutions as ethical founds, ethical banking, ethical investor –responsible investment- (RI). There are some international indexes that establish some international stocks exchange as bench market for some companies that use specific ethical standards in the selection of the investment.

- **Issue of Corporate Governance:**

The theme of social responsibility as a good practice of corporate governance generated within corporate world is moving to include new aspects and approaches: In the macro level – Financial institutions, multinational and so on are addressing their strategies to the sustainable initiative-, first at all, the different types of organization: Multinational corporation, MNCs, not profit organization, ONGs as well as public bodies from international institutions to local organization are adopting social responsibility frame work. They care more and more about

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36 Ethical indexes: Domini 400 Social Index (at the KLD), Dow Jones Sustainability group index, (DJSGI), Ethical index Euro (EIE) and the ethical Index Global (EIIG) of the company E. Capital partners. FTSE4GOOD Markets performance.
corporate government assuming their specific role in social, economical development and environment protection.

Managers play an important role in the sustainable process to ADD value, for that reason, it is necessary to consider their high ethical standards and integrity, as an individuals; for that reasons, it is important to select an ethical CEO, any one who ever wondered and care if ethics issues need only look at the outflow of funds from the equity markets since the fall of Enron, Arthur Andersen, WorldCom, Adelphia, according to Constance Bangly at Harvard University, HBS mentioned Tisher (Tisher, 2003). These scandals demonstrate not only a lapse of ethics but also an issue of the rule of law. This is the cost of management, reflected in reputation cost.

- Consumers and International bodies Demands:

All groups of consumers and internationals bodies are demanding that organizations behave in appropriate way to contribute to a social and environmental performance, also, some kind of organizations like corporate foundation are assuming a rising role in balancing different interests acting mediators.

- Corporate social responsibility how is this in the field of financial:

Today organizations demand for Social Responsible Investments (SRI). In the past, finance doing well and making money had been mutually exclusive. But this concept is changing in the modern theory they are ethical financial institutions and investors. Ethical investment received special recognitions in the community of business -In 31st July 2001-. when companies’ performance was evaluated by ethical index as FTS4good- owned by Financial times and London stock exchange, they include only those companies which satisfy some requirements on environment, social and humanitarian behavior, and automatically excluded others like tobacco producer, manufacture of weapons, owners and operators of nuclear weapons, mining companies and firms processing Uranium - , evaluating European, Britain, American and the world.

Investors are interested and driver to business that are social responsible commitment, for example $ 1 out of every $9 under professional management in America evolves an element of

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socially responsible investment according to Geoffrey Heal of Columbia Business School. Some of the big banks including Goldman Sanch and UBS start to integrate social, environmental and government issues in some on the equity research. The financial industry is demanding good financial results; the private equity part is skeptics but is responding to the public pressure and is responding incorporating voluntary transparency code.

Moreover, corporate social responsibility is a value tangible asset that increases the value of the company in the long time. Additionally, it is seems that corporations have the voluntary obligation to improve the society in which they operate, for instance, private corporations help to alleviate the public welfare deficient- and improving the competitiveness of the industry and they can be benefited in economical social and environmental issues and, at the same, their society in which they are operating.

An ecological commitment and ethical investments is presented. Ethical investments have been increase rapidly, in Britain ethical funds rose by 1,700% between 1989 and 2000 to £ 3,7 to billions to 5,5 billions according to economist, July, 2001.

In the micro level –Financial institutions are carry on the give opportunities to the vulnerable population, and trying to decrease the poverty, as initiative of Banking for poor, Bangladesh case.

- Problems of Reputation and social pressures:

Corporations have been working hard to improve their reputation, and the environment and society in which they operate. Scandals as Wall street, Enron WorldCom and so on, are decreasing trust in business and led to heavy creation of regulation and motivate ONGs to create a balance between the society and the business operation. Society with the globalization is demanding corporate appropriate behavior, and an improvement in their competitiveness in the industry is necessary. Social ranking and rating put pressure in companies to report the non financial performance and transparency.

As consequence of this external pressure employees are demanding CSR serious competitions for talent they feel motivate to improve their voluntary practices and reputation to attract and retain staff. Companies are incorporating social responsibility as a part of their sustainable strategies in different areas:
Figure 3.3 what should a Company do to address environmental, social and governance issues:

The source of this information is from The Economics, corporate social responsibility, just good business, Jan 17th 2008

As it was mentioned before the old traditional ideology is put behind; a new one is taking its place. Society is demeaning responsible actions and decisions by corporations. Internationals bodies are setting international standards; the consumers, NGOs, agents, and consumers are press for responsible decisions.

This new ideology is the Modern Ideology of Social responsibly that in contrast to the traditional ideology; it considers that corporations are social entities. Corporations are not longer only economical institutions, but also sociological instruments as well, according to Edward Freeman.38

In the new paradigm the social responsibility is a very important label of reputation and value assets in the long time for corporations, investors and customers and other stakeholders are

38 Edward Freeman is a philosopher and professor of business administration at the University of Virginia and Walton he is recognize for his theory of stakeholders.
paying attention to this social responsible commitment. The social responsibility improves the value of the firm in the long time.

3.6.2 The Modern Social Responsible ideology and the Traditional ideology

The statement about if the Business of business is business is an interesting issue to discuss and to think about, even more today with the financial crisis, that is a issue that needs and re-force systems ethics. With the financial crisis Corporation and Financial institutions and governments are thinking now how to keep employees at work, how to make the profit, but also an interest on transparency, a necessity for new regulation and additional -analysis how and where and to whom the money is transferred and controlling and also- and ethical managers that continually work in ethics systems in organizations is necessary.

The Business of business is business, this statements applies in the individual corporations interest perspectives. Their interest are toward to the maximizing the wealth of the shareholders as unique objective. Their concerns are higher to increase the profit. They do not have or they care less on social and environmental public issues. The revaluation of this way of thinking and a proposal of a new modern perspective is necessary. The new statement is: The Business of business is sustainable and business. In that way this modern perspective goes toward to maximize the shareholders and other stakeholder’s interests, presenting common wealth, and corporate wealth.

- The traditional Corporate Social ideology

Corporations are responsible only to produce profit for the owner. The discussion of the business of business is business started with Milton Friedman in the traditional ideology. Milton Friedman he is the main exponent of this traditional view. In this traditional ideology, corporations are considering to be in an environment of free market system. Corporations do not have space to think in social responsibilities it is considering “fundamental subversive” according to Friedman. He points out that the social responsibility of the firm is to increase their profits staying in the legal and moral rules, “rules of the game”. Friedman assumes that the moral responsibility for business is to make as such much profit as is legal possible. This is the proper obligation of the firm and its responsibility. In that way corporations are responsible only for a set of people: the shareholders.

In this traditionally ideology shareholders hire managers to maximize their profits. If managers are doing social responsibility, Friedman assumes that they are using the stockholder money without their permission. “The managers of public companies are not the owners of those companies. They're managing them on behalf of the owners, the shareholders. Other views do need to be taken into account and any well-run company takes into account the views of its customers, its suppliers and so forth, these other so called stakeholders. But to elevate those groups to the same level as shareholders is, I think, a mistake. The shareholder is king “(Crook40, 2005). The public and social concerns are a responsibility of governments they are responsible for that aspect. It is an economical oriented approach a share wealth maximization issue.

A. Shareholder Wealth Maximization Model (SWM)

In contrast to CWM model, that we will see later, the Anglo-American system is only economical oriented; in which it is considered that the responsibility of the firm-the goal of management- is in the framework of maximizing share's wealth. “Basically the Anglo-American41 markets are characterized by a philosophy that a firm's objective should be to maximize shareholder wealth (SWM model) (Eiteman, Stonehill, Moffett, 1998, pp.7). The firm should drive to maximize return of the share holders as measured by the sum of capital gains and dividends, for a given level of risk.

Alternatively, the firm should minimize the risk to shareholders for a given rate of return. Moreover; the SWM assumed that the stock market is efficient. The share price includes all of the information of the market, it is always correct because it captures all the expectations of return and risk as perceived by investors. It quickly incorporates new information into the share price. Share prices, in turn, are deemed the best allocations of capital in the macro economy. The risk is defined in the volatility of the share prices. The SWM model also treats its definition of risk as a universal truth. Risk is defined as the added risk that the firm’s shares bring to a diversified portfolio. The total operational risk of the firm can be eliminated through portfolio diversification by the investors. Therefore, this unsystematic risk, the risk of the individual security, should not be a prime concern for management unless it increases the prospect of bankruptcy. Systematic risk, the risk of the market in general, cannot be eliminated. This reflects risk that the share price will be a function of the stock market

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40 Clive Crook, the Deputy Editor of the Economist, Clive Crook about corporate social responsibility.
41 Anglo-American refers to the United States, United Kingdom, Canada, Australia and New Zealand.
In the other hand, a Modern Corporate Social ideology related with the corporate wealth maximizations, share holders and other stakeholder wealth maximizations in term of social, environmental and economical, make statements about if the business of business is sustainable.

- Modern Corporate Social Ideology

The business of business is sustainable and business; in this new approach corporations are social responsible organizations, for a group of people that have direct or indirect relationship with corporation –stakeholders-. In this sense corporations not only will be managed for the benefit of the stock holder but also for the benefit of these groups of the stakeholders. They do more that producing and distributing economics goods. This aspect changes the vision that corporation will pursue only economical benefit.

Corporations are not longer economical institutions, but also sociological instruments as well, from the point of view of Edward Freeman\textsuperscript{42}, who is the main exponent of this ideology. For him the stakeholders are those groups or individuals who benefit and who is harm by and from corporation, all of them have a right, they are respected or violated by corporations. In these groups of stakeholders we can consider: owners, employees, supplier, customers, and the local community, and these entire groups need to be considered in the corporation activities.

The role of the manager is very important in the modern ideology for instance: Freeman remarks that the ethical challenge for the manager is to meet the claims made by all of the stakeholders, the function of the managers is to keep the balance among of these groups at the best minimizing their interests. In that way part of the meaning of the corporation is to cooperate with other Corporations and governments agencies to help to solve social problems according to Norman Bowie; he points out that profit should not be the only objective of the corporation, the profit is a byproduct of other goals, such a providing good conditions and meaningful work for employees.

In this new ideology, corporation could be in some way little altruists. According to Norman Believe corporation acting altruist can create a moral community, establish reciprocal commitments among stakeholders and corporations. In other words, the corporations are commitment to treat fairly the stakeholders and the stakeholders are commit to the welfare of the corporation.

\textsuperscript{42} Edward Freeman is a philosopher and professor of business administration at the University of Virginia and Walton he is recognize for his theory of stakeholders.
This model has also been labeled the stakeholder capitalism model. “In continental European and Japanese equity markets are characterized by a philosophy that corporation's objective should be to maximize corporate wealth. In this Corporate Wealth Maximization Model, CWM a firm should treat shareholders on a par with other corporate interest groups, the goal is to earn as much as possible in the long run, but to retain enough to increase the corporate wealth for the benefit of all interest groups such as management, labor, the local community suppliers, creditors and even governments” (Eiteman, Stonehill, Moffett, 1998, pp. 8).

The definition of corporate wealth is beyond of financial wealth such as cash, marketable securities and unused credits lines, beyond the wealth measured by conventional financial reports. It includes the firm's technical, market position as well human resources as the knowledge and skill of its employees in technology, manufacturing processes, marketing and administration of the enterprise. Moreover, the model assumes that equity market is either efficient or inefficient but this is not a problem because firm goals are not exclusive shareholder-orientation. The model assumes the long term loyalty, because, shareholder and the other stakeholders should be influenced by the corporate strategy, not the only portfolio investors. The CWM model assumes that total risk, that is, operating and financial risk, does count. It is a specific corporate objective to generate growing earnings and dividends over the long run with as much certainty as possible, given the firm's mission statement and goals. Risk is measured more by product market variability than by short term variation in earnings and share price.

Risk is measured more by product market variability. In this order of ideas, it could be possible to talk about reputation risk.

In the second model, Corporate Wealth Maximization, CWM model, it is possible to talk about and approximation of the Corporate Social Responsibility, an approximation because a frame work of international principle, relationship among stakeholders, corporate social responsibility communication and discretionary approach is missing. All of theses issues are important thinking in the maximization of the wealth of the stakeholder groups. In the SWM model, it is possible to talk about only Corporate Responsibility stockholder orientation-the objective is to maximize the profit the shareholder wealth.

Consider a society in which everybody was a profit-maximize.
The table 1, Traditional ideology Vs Modern ideology corporate social responsibility shows some keys different between the two ideologies.

### Table 3.2 Traditional ideology Vs Modern Ideology Corporate social responsibility

<table>
<thead>
<tr>
<th>Traditional Ideology</th>
<th>Modern Ideology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main exponent is Milton Friedman</td>
<td>The Main exponent is Edward Freeman</td>
</tr>
<tr>
<td>Organizations are economical institutions</td>
<td>Organizations are social Institutions</td>
</tr>
<tr>
<td>-Corporation are responsible only for the group of stakeholders</td>
<td>-Corporation are responsible for the group of stakeholders</td>
</tr>
<tr>
<td>-Shareholders Wealth Maximization model (SWM)</td>
<td>- Corporate Wealth Maximization Model, (CWM)</td>
</tr>
<tr>
<td>The main objective is to pursuit and maximize the profits</td>
<td>The profit is byproduct of other activities as meaningful work for employees</td>
</tr>
<tr>
<td>The function is producing and distributing goods as a free market organizations</td>
<td>Aims is to improve the society MNCs operate</td>
</tr>
<tr>
<td></td>
<td>Decreasing poverty, educational plans and so on</td>
</tr>
</tbody>
</table>

3.6.3 Corporate Social Responsibility meaning in the new Modern Social Responsibility Ideology:

In the modern Social Responsibility Ideology, According to *business respect* (Mallen Baker), Corporation social responsibility (CSR) “is about how companies manage the business process to produce an overall positive impact on society”. To get this positive, it is a problem of managements, It is a manager’s challenge to pursuit the Corporations a proper role in the society, that is their Social responsibility, as a obligation within this society in which they operate, (Hoffman, 2001) considering that corporations-business interact with many parts.

Businesses behave and interact with many parts- multiples parts and their behavior have considerable impact in society. Let see the diagram 1. Business in the society to understand graphically this interconnecting relation:

Basically, the figure 3.4 shows that companies need to focus on two main point’s first (1) Quality of managements in terms of both: people and process, (internal part of the second circle) and second (2). And the impact on the society in various areas (share holders and others.
stakeholders such as: union employees, local communities, customers, financial analysts, governments and NGOs. It is represented in the internal part of the circle.

**Figure 3.4** Business in the society
Source from Mallen Baker http://www.mallenbaker.net/csr/definition.php

The new concept is focus to stakeholders’ wealth that is a product of sustainable strategy considering social, environmental and economical aspects the following 3 concepts are important:

3.6.4 Sustainability and balance of the society

There are 3 very important elements that are considered to establish the corporate sustainable and balance of the society:

1. **The** relationship with stakeholders is **reciprocal**.
2. **Corporations are private entities with public responsibility, and**
3. **Common wealth, “corporate wealth”**

| In the framework of ethics values, principles, code of ethics that are ethical business ethics and with the sustainable strategy that are in the directions to the bottom line of social, environmental and economical. |

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43 Mallen Baker is the director of Business in the Community, UK [http://www.bitc.org.uk/who_we_are/index.html](http://www.bitc.org.uk/who_we_are/index.html) the page was consulted in April 30th 2008
• Reciprocal stake holder relationship

In the stake holder model of the corporation the relationship ship between all parts that are affected and affect the corporation are reciprocal, because each stakeholder can affect the one of the other in term of harm or benefits (Hoffman, 2001).

Every company whether large or small has a unique set of stakeholders most often included investor’s employees, customer’s supplier and communities. Svendsen defines the stakeholders as individuals or group who can affect or who are affected by corporations’ activities. While companies could manufacture an image and reputation through advertising and other media-based campaign, in today’s networked world reputation depends on to establish the trust of key stakeholders and good relationship with them. Weakness considering only this approach: some times it is not a compromise among corporation and external parts, because there are not an objective lineaments-in the same directions- among them. It is constructed the strong relationship with stakeholders and the tendency is to avoid the conflicts and only in this point, it is difficult to establish a standard valuation to the firm. The contributions of our definitions: It is the social Relationship/cooperation-collaboration in the corporation interaction with many agents, many parts are involved. For most companies today, stake holder’s relationship can have a significant impact for network reputation, perception of the company for mutual collaboration WIN-WIN, stakeholder fidelity and so on.

• The stakeholder’s corporations:

“The long term value of the firm rests primary on: the knowledge, ability commitment of its employees; and its relationships with investors, customers and other stake holders. Loyal relationships are increasingly depending on how a company is perceived to create “add value” beyond of the commercial transitions” (Wheeler and Sillanpaa, 1997). The “add value refers to issues as quality, service, care for people and the natural environment and integrity. Stake holders’ relationship leads to better long term business performance considering that in most of the countries, business is the principal driver of national economic performance

The stakeholders could be defined as individual and entities that are affected and have relations with the business, and who bring influences to the business. Those groups are classified in: primary, secondary and others stakeholders (Wheeler and Sillanpaa, 1997) and they group the stakeholders in the following form:
1. Primary stakeholders: The individuals and entities that have direct relationship with the business -investors, employees, customers, suppliers, and the local community where the firm is based and trader.

2. Secondary stakeholders: the interactions and interest with the firm of these groups are more indirect, but they form part of the social ecological of the enterprise system such as regulators, civic institutions and pressures groups, media and academics groups, trade bodies and competitors.

3. Others stakeholders: Groups of stakeholders that could be impacted for the business and the way in which companies behave, for instance: Natural environments, non human species and further generations.

The figure 3.5 stakeholders model corporations, shows the stakeholders in a common corporation, they are reciprocal because as we mentioned before each stake holders can affect the other in term of harm or benefits and in terms of relationship of cooperation. For instance the owners have financial reciprocal stake in the corporation, they put money directly to the firm and they expect return from their employees works, and they are loyal to the corporation and in reciprocal exchange they expect their benefits, heath care, motivations, good treatment and possibilities to development their self. It was mentioned by Alain Dutheil -chief operating officer at St microelectronics- in the corporate responsibility report a culture of sustainable excellent 2007-, one way to reach their sustainable strategy of excellent is by an employee choice: “taking into considerations all elements that drive employees’ motivation: competitive salaries to start, but also managers style, companies values, employees development and satisfactions, through trying and empowerment, commitment to sustainable development and involve in local communities, reciprocal relations”.

Customers provide the loyalty, the succeed for the firm in form of revenue, customers indirectly pay for the development of new product, they expect products the good quality, companies that have a good reputation in the community and help to improve the problems and deficiencies in the community. The suppliers give the row material to use in the development of products, and process with quality, and in reciprocal way they expect the payment on time, the good relationships. Local community expects that the firm to be a good citizen who improves community conditions and minimize and reduce to zero the damage in the environment pollution, decrease the problems in the community as heath care, educations, crime decreasing and so on.
The management implemented to safeguard all of the welfare of the all corporation, thinking of the corporation interact with other stakeholders, in other words additional to maximize the stock holder benefits, has the obligation to maximize the benefits of the other groups of stake holders, according to the wealth corporation model, and guideline the private corporation to the public welfare. The manager needs manage and balance the all interest of stakeholders. For instance owners want higher financial returns, customers want product the best quality a reasonable prices, therefore, companies expend more in research and development. Employees want higher and better benefits, while the local community wants better city infrastructure such as better parks, and day care facilities. His function is to balance all of the interest of the group of stake holders. The stake holder’s theory must redefine the proposal of the firm. The stake holder’s theory claims to maximize the welfare of the stake holders groups.

**Figure 3.5 Stakeholders Model of the Corporation**

![Stakeholders Model of the Corporation](image)

2. **Private Corporation and Public welfare, Cooperation with governments and entities to public wealth**

The idea of Private Corporation as public entities social responsible comes in many versions. The most developed version demands that corporations help to alleviate public welfare deficiency. In other words corporations help to decrease problems inner the city, drugs problems, poverty, crimes, illiteracy, lack of sufficient funding for educational institution, create and improve heath care conditions, chronic an employment and social life in the community and in the society, etc.

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44 The Stakeholders Model of the corporation is from Hoffman (2001), pp 163
There are many claims that corporation only want to maximize the profits of the owners. Therefore, the manager has to provide: jobs and training for people, build and renovate parks, sponsors clean up programs, establish manufacturing plans in ghettos areas, reduces the poverty, offers grants to support educational plans, support minority business, provides educational films and so on.

There are many objections again the legitimate of Private Corporation in name of social responsibility corporation development all plans to alleviate public welfare deficiency.

3. Corporate Wealth

Corporate wealth maximization idea in contract to the shareholder maximization is based on the idea of Corporate Wealth: corporations need to be more cooperative. The assumption behind cooperation is that, it will produce a general benefit for the community as a whole. The grounds of a company decisions cannot narrow company’s immediate interests “A more co-operative approach facilitates taking a one perspective in thinking about things and people and lowers concern about potential conflicts of interest by trusting people to use sensitive betray it. If one cherishes a relationship one does not betray it” Charkman Jonathan 45(1994) - in the sense that not only maximize the wealth of the share holders but also the wealth of the stakeholders. Corporate governance is reflected as a mirror of the general society, it applied to all social systems, governments, business companies, families, individuals, and so on.

Corporate Wealth Maximization Model, CWM

This model has also been labeled the stakeholder capitalism model. And it applied In continental European and Japanese equity markets. The main characteristic is that corporation's objective should be to maximize corporate wealth as we see previously. In this Corporate Wealth Maximization Model, CWM a firm should treat shareholders as a part of the other corporate interest groups. The objective is to earn as much as possible in the long run, but to retain enough to increase the corporate wealth for the benefit of all interest groups such as management, labor, the local community suppliers, creditors and even governments” (Eiteman, Stonehill, Moffett, 1998, pp. 8) the group of stakeholders. It seems that the model is focus more on the society balance, the values, ethical, and social responsibilities but we will complete this

45 Jonathan Charkham was formally advisor to the governors of the Bank of England. He has involve on many activities of corporate governance abroad and UK including the national Health Service (1993/4) and housing association (1994), He in the group of the Cadbury Committee and a director of several public companies, including Great Universal Stores PLC, This information is from Keeping good company a study of corporate governance in five countries in 1994.
remarking that the company identity in the frame works sustainable strategy that pursue the environmental, social and economical parts are important. And the objective to earn as so much as possible could be directed also to help and improve the society in which corporation operates.

The definition of corporate wealth is beyond of financial wealth such as cash, marketable securities and unused credits lines, beyond the wealth measured by conventional financial reports to include the firm's. It includes the firm's technical, market position as well human resources as the knowledge and skill of its employees in technology, manufacturing processes, marketing and administration of the enterprise. Moreover, the model assumes that equity market is either efficient or inefficient but this is not a problem because firm goals are not exclusive shareholder-orientation. The model assumes the long term loyalty, because, shareholder and the other stakeholders should be influenced by the corporate strategy, not the only portfolio investors. The CWM model assumes that total risk, that is, operating and financial risk, does count. It is a specific corporate objective to generate growing earnings and dividends over the long run with as much certainty as possible, given the firm's mission statement and goals. Risk is measured more by product market variability than by short term variation in earnings and share price. Risk is measured more by product market variability. In this order of ideas, it would be possible to talk about reputation risk. Also with this model we assume that corporation is Social Responsible Investors.

**Categorization approaches of corporate social responsibility**

There are many approaches of corporate social responsibility, we are going to group these approaches in the basic ideas of this categorization made by Agenzia European di Investimento (AEI), initiative with some variations, for instance names, ideas:

**Figure 3.6 Visualizations of the approaches of corporate social responsible**
Basically we are going to group the approach of social responsibility in 3 parts: subjective communications, Relation interest parts and Institutional.

- **Communication approach:**

It is the first square, and in this approach organizations manifest their ethical commitment through *ethical documents*; for instance Code of Ethics, social responsibility reports. There is vague and high amplitude of freedom in the way it is defined. That approach does not permit valuation in international environments because the way it is expressed is not a common language. “The weakness of corporate commitments to code compliance is all too apparent” (Hoffman, 2000, pp.487). Hoffman points out that in his 30 of year’s research and teaching, he knows only one corporation that asked external monitoring to verify its code of compliance and makes public the result. Nestle had facing a public boycotts of its product and problems with marketing and promotional activities in developing countries. In this approach, corporations establish ethical commitment and communicate them, for instance “Generali” group shows ethical commitment with the society in the way the group defines its identify, values, social commitment with the society and so on. **Contribution to CSR definition:** Corporate social responsibility should communicate appropriately through out social report, code of conduct, information in website and so on

- **Relationship of interest parts-stakeholders approach:**

The interested groups with whom organizations operate are the stakeholders, “People who are affected by firm’s performance and who has claims in this performance” (Michael, Ireland and Hoskisson, 2001). They are in relationship with the firm for instance: Customers, chain supplier, government, employees, society. The relationships among them need to be sustainable in the long time. It is regarded to individualization of the ethics principle through out interpretation of interests of the participating parts. According to Svendsen (1998:1) Companies across North America are taking seriously the point that one way to succeed in a high competitive globalize economy is to cooperate/collaboration. In an economy where companies need to persuade investors to hold their stocks employees to work cooperatively, customers to buy their products and services, and contractors to maintain strong supply chains collaborative stakeholders relations are the key.

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46 Fore additional information see (Hofman, 2000, pp 503-509
47 Ann Svendsen is a senior partner with core relation consultant in Vancouver, Canada.
• **Institutional** approach:

It is associated to the framework of international principles, guidelines and corporate governance development by UN, The EU and OECD. Currently, they are European ethical agencies: (AEI applying this approach to evaluate social performance of the companies). Corporations should incorporate CSR in their strategies: A tendency in international environment about how companies are conducting their engagements and publicly it in CSR reports is presented in a survey (KPMG, 2008) which presents the followings data:

**Figure 3.7 Stated purposes for conducting stakeholder’s engagement**

This source of information is used with the permission of KPMG (KPMG, 2008)

![Figure 3.7](image1)

In the figure 3.7 the most important aspect is to understand stakeholders’ expectations

**Figure 3.8 Stated purposes for conducting stakeholder’s engagement**

This source of information is used with the permission of KPMG (KPMG, 2008)

In the figure 3.8 the most significant item engaging stakeholders is using round tables and dialogues.

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48 Institutional is related to Institutions which are structure and mechanism of social order and cooperation governing the behavior of a set of individuals. Institutions are identified with social purposes. This approach is following the recommendation of the European commission, Social responsibility to sustainable development. Brussels 2.7.2002 – COM/2002 – 347 that includes integral principles from UN and OCSE.
The social responsibility goes further than the law, than the stakeholder theory, the discretion; the corporate conscience, and beyond of improving the competitiveness of the industry, considering that organizations are international bodies that interact in social systems and International principles will improve their social performance. Based on the previously ideas, the CSR concept is based on the Corporate Wealth maximization Model articulated basically with the and three ethical/responsible commitment approaches.

In this and the other approach, the role of the Corporate governance is very important, the definitions that we have used for this approach are very important and are defined as the relationship among stakeholders to determine and control the strategic direction and performance of an organization. Corporate governance is, in essence, the method by which an organization establishes order among the various stakeholders to ensure that decisions are made and interests are represented in line with the firm’s stated objectives. For our research the concept of social responsibly will refer to this voluntary behavior beyond of the law that corporations have to improve the society in which they operate with the ethical dimensions and sustainable dimensions (Economical, social and environmental) and philanthropically.

3.7 Articulating the Ethical/Concepts of CSR/sustainability
Figure 3.9 Ethical/CSR/sustainable developments Concept in a new paradigm

Integration of the three dimensions of Ethics/CSR/ Sustainability

Creation of social value and in the long term converge with economical value

Ethical dimension
1. Ethical principles,
2. values,
3. mission,
4. international principles,
5. ethical dictions, the gives Firm identity

CSR
1. beyond the law- supporting in that companies operations in this law.
2. Satisfaction stakeholder's expectations

Sustainability
Concerns about
1. Economical
2. Environmental
3. Social Aspects
Impact in present and futures generations

Incorporation of the 3 dimensions in the corporate strategy

LAW
Measure/voluntary concerns-Stakeholders expectation (economical, social environmental issues)
International standards
UN, EU, OEDC
Sustainable strategy integrating social, environmental, and economical issues

Social Expectation, stakeholders
As it was mentioned businesses are influenced and influence people out side of the company: the stakeholders, companies need to build credibility, and communicate it through CSR report and incorporate that in their sustainable strategy.

It is important the integration of ethical/CSR/sustainable: the 3 dimensions in a sustainable strategy. The figure 3.9 shows how these demands are integrated.

As it was seen in chapter 2, the concepts of ethics and sustainable (economical, environmental and social dimensions) are fundamental part to generate social value.

In this research CSR will be defined as: A voluntary company behavior, that firm has, is that Space (line blue) between the law concerns –the minimal accountability that corporation should have– and social expectation, social expectations that are from shareholders and the other groups of stakeholders as community, suppliers, employees, governments, and so on. In this voluntary behavior companies need to be creative in the searching of satisfaction social expectations. This generates reciprocity corporation care about societies, stakeholders and investors, customers perceived this CSR behavior in favor of the corporations.

The ethical part is the reference of international principles, form UN, EU, OEDC, trying to balance the society. Helping to establish the balance in the society, decreasing the poverty, helping in educational and cultural plans, housing improvements, employees concerns, respecting the human rights in operation in development countries and developing countries, monitoring and guarantee the activities and standards of suppliers. In a world of changing expectation companies must account for the way they impact the communities and environments in which they operate; incorporating CSR in strategy and identity, sustainability strategy, integrating in their operation social, environmental and economical issues. – Sustainable strategy-, with defined objectives, management systems, and stake holder’s engagement, reporting and assurance. This CSR strategy incorporation helps to minimize the reputation risk. The sustainable part as it was presented in chapter 3 is toward to social, economical and environmental issues.
Chapter 4

4 SRI/CSR ethical finance in Macro level and Micro level

In this chapter it is presented an analysis, why the finance a new paradigm is necessary, based on an analysis’s of CSR/SRI and ethical sustainable finance focus in two levels: Macro level and Micro level.

1. Macro level making reference a big scale big SRI financial institutions operations, first focus on the topic of (1) Social Responsible Investments -definitions, growing, background, some trends and so on- Sustainability focusing not only in economical and profits aspects but also in social and environmental as well.

2. Then other areas and instruments of ethical finance in a macro level are presented such as: (1) Ethics /CSR and financial sectors, Sustainable index (stock exchanges), (2) Cleantech Venture capital, (3) Financial services, (4) Institutional investors, (5) International institution will be analyzed.

3. Finally, an analysis in Ethical (CSR/ in a Micro level focus on (6) Social Finance and (7) micro credit is conducted: Mentioned financial services for the most vulnerable people that gave the possibility to living their life with dignity.

4.1 Corporate Social Responsibility CSR, SRI/ethical/sustainable finance in Macro and Micro level

4.1.1 Why CSR/SRI and Finance a New paradigm is important?

The globalizations of the economy makes necessary a finance role review not only in economical aspects but also social and institutional. This is a discussion that is proposal by Amartia Sen (Sen, 1998). A change to sustainable finance is necessary focus to Sustainable development in the framework of ethics. Sustainable development mainly, evolved three bottom line aspects the economical, social and environmental, focus, to the social equality, environment
protection and economical competition, sustainable finance\textsuperscript{49} that have been remarks by international bodies, UN, Global Compact and OECD focus on ethics, responsible actions and economical competitive advantage.

Business, included financial institutions are calling to address sustainable development and to incorporate in their practices, International principles focus on ethics, responsible actions and economical competitive advantage. The creation of international principles as guidelines proposal from UN, global compact, European commissions and OECD are focus in directions to economical, social and environmental development, for example Bruxels commission of the UN 1987 an economical development appropriate is that “one that permit the satisfaction of economical, environmental and social of the present generation with out take advance of the development of the futures generation”

In the international environmental the meeting about the Sustainable development of Johannesburg and International Conference of the financial for the Monterrey Development and Barbados\textsuperscript{50} and the G8 Unesco World Forum related to education, research and innovation new partner for sustainable development in Trieste, Italy 2007, an issue about education, innovation and research the tree key factor that play a important role of economical and social progress. In this process, it is mentions that every, player is important in this process -governments, international organizations, non governmental organizations, universities, research centres, and private sectors-. Moreover, the globalization plays important role by definition: “it is a global process with global implication” (World Forum New partner for sustainable development, 2007).

Individual and nations have been touch different for the globalization aspects: they do not have share equally in its benefit nor have been equally damaged by its adverse consequences, for instance about modern medical procedures and practices or the growing adverse global clime change. Moreover, poor people and poor nations have to little and they live in very difficult conditions and they are the more vulnerable people. It is important to think in share responsibilities and share actions that not only help to create aggregate wealth but also greater equity, according to Daniel Schaffer\textsuperscript{51}. In that way it is important to transfer from the theory all that changes that are part of the real world, (Fanni, 1991) an to see different sectors, industries and different playing different roles in this part.

\textsuperscript{49} Finanza sustainable, www.finanzasostenibile.it
\textsuperscript{50} UN sustainable Development http://www.un.org/esa/sustdev/about_us/aboutus.htm
\textsuperscript{51} Daniel Schaffer if Public Information Officer the Abdus Salam International Centre for Theoretical Physics, Trieste Italy. G8-Unesco World Forum New partners for sustainable Development, may, 2007, Trieste
The vision Keynes classical, Marshall e Hicks, that mentioned that the investment aggregate is functions of firm’s interest rate study in conditions of certain, have the objective of maximize the profit in that directions is given the attention to the single entrepreneurial the shareholders, and from them this is the principal indicator and instrument of heath of the enterprise and the way the firm can survive in the long term. It is important to remark that Modigliani and Miller (Modigliani, Miller, 1958), introduce the theory of the firm the uncertain and risk and locate the enterprise in the capital market, Modigliani and Miller don’t share the idea of Keynesian Matrix oriented to the profit maximization and they gave the directions to a new measure of the organization behavior to Free Cash Flow orientation

Modigliani and Miller have the big discovering they put the evidence the Capital average price model existence, the use of two financial sources own firms investment (own capital) and capital external (debt). This approach assume that is in presence of an efficient and competitive markets that all of information of the market is incorporate in the share price and about the maximization of the market price of the firm, even public information, public information about CSR firms commitment. Today, it is complement and it is considering the importance to include in this concept economical concept the environmental and financial part. Those ideas and based on a Program of research Model A. Project of Unit of research Model B (2003) Prot. 200313922, Title: finance and ethic rating, coordinator by Prof Maurizio Fanni.

Based on that an ethical approximation is necessary in the financial field, that is addressed to economy wealth. In that way the maximization of the social welfare increase with the participation of the informed planer that bring best arguments that increase the welfare of the community (Pigou,1946) thinking not only in the profit and value for share holder’s wealth but also in the wealth of all stakeholders, meeting satisfaction of their expectations. Creating a equal possibilities and dignity life for every people life with dignity; paint particular attention to the violation of human right, decreasing poverty, transparency in companies operation, disclosing in information, symmetric information between consumers and producers and the process of the public good generating an equal situation.

A need for social visions is called and a satisfaction for the group of stakeholder is necessary, multinational institutions incorporating ethical identity/ethical climate, in the sustainable strategy, thinking in a company for the collectively: employees,

52 Free Cash Flow basically is the Flow that remain after subtracting from the Cash flow Autogenerato, the part that is related to the reconstitution of the permanent capital and the net work capital (capital circulated) that were sacrificed for the effect of productive process; and consequence it is the coherent measure with futures prospective of (maturity, stazionarity and development) of the firm, (Fanni,200)
Socially responsible investing (SRI) are growing to a large range of products and investments, from stocks and bonds, to savings, checking and other banking accounts, to venture capital. Like all investors, socially responsible investors seek a competitive financial return on their investments, and the good news is that it is possible to consistently achieve this. The firm is immerse in the capital market and is base on the judgment of investor and it is important to include in this judgment elements that make sustainable and enterprise in long term, and the very important part the ethical behavior and ethical judgment.

SRI investments are increasing rapidly, The 2.71 trend trillions in total assets under managements have been using more that the three core socially responsibility investment strategy (1) Screening, (2) shareholder advocacy, and (3) community investing. In 2005 it also increased positive to 2, 29 Trillions. About one of every nine dollars under professional management in the United States today id involving in social responsible investment, 11 percent of the $25, 1 trillions in total assets under management tracked. (Social Investment, 2007)

Those strategies have been adopted for the creation of ethical investments and investments: (1) Screening Activity: (Negative of positive) which consist on including or excluded share/portfolio investments on the basis of environmental and/or social criteria. The negative selections are used to decide in which business do not invest. This strategy for example is exclude share issued under oppressive regimens or business that produce weapon, tobacco, alcoholic drinks, cigarettes, etc. The positive strategy is directed to rewarding founds that make positive issues on helping the environment or society. (2) Share holder’s activisms or advocacy: It consist in combining in the investments decisions not only in the financial aspects but social as well. Investors put pressure on managers, gathering the delegation of the votes form minority shareholders, so that it can modify its decisions and it can adopt socially responsible behaviors. (3) Community investments: It consists on making programs of sponsoring. This programs are oriented to the promotions of a socially sustainable developments in productive sector or geographical areas not able to spontaneously for instance housing, creation of job occupation, assistance to small business in their start up period, According to social investment forum.

The important CSR/SRI increasing is also attributing to administrations and governments with create legislations that stimulated the change of the behavior of business and more social
conscience and ethical decisions makers from investors and companies. For example: in the United Kingdom where in July 2000 an important regulation has been developed by the UK Pension Discloser Regulation with impose to the pension funds to declare with ethical, social of environmental criteria their portfolio decisions. In Holland there are especial fiscal facilitations that are granted to whom invest in green funds.

The ethical oriented investments it has been useful in Italy, in Europe and in the world. In 2007, there were 260 socially screened mutual fund products in the US, with assets of $201.8 billion... There were 55 SRI funds in 1995 with $12 billion in assets. SRI mutual funds span a range of investments, including domestic and international investments, and a growing range of products are available, including hedge funds and ETFs.

From the institutional point of view, an interesting phenomenon on the SRI is showing that European Union in July 2001 has published the green book the CSR and with the Belgian company of environmental and social rating Ethibel. The commission is contributing to clear ethics of the ethical investment European funds attributing real labels.

In financial Markets, the stock exchange is susceptible to the creation of stock index for bench market that adopt social, environmental and economical criteria to the selections of companies useful for ethical responsible investor and also there is the ethic rating that are instruments of monitoring and useful for investors. That helps to improve a sustainable financial world for the sustainable development.

Other indexes in stock exchange, ethical indexes that included companies that performance well economically, social and environmental are:

- The Domini 400,( at the KLD)
- Dow Jones Sustainable Group Index (DJSIGI)
- Ethical Index Euro (EIE) and the ethical Index Global (EIG) of the company E. Capital Partners.
- FTSE4GOOD (US,Global, Europe and UK) of the company FTSE.

There are ethical ratings a rating that measure the CSR performance of the Business included financial institutions and which is emitted by rating agency. They used different methodologies and criteria to establish these categorizations. It will be explained in the following chapter in
details. Some of those rating agency are: (1) AEI, Agenzia Europea di Investimemtto, (bruxels-Italy), (2)Avance SRI research- Vigeo (Italy), (3) Ceres (USA), and (4) EIRIS (UK), in others.

The financial ethical instruments and products are growing currently and increasing importance. Social Responsible investments are increasing importance and growing significantly.
In the micro level it is grooving a financial instruments and the term of social finance to help the most vulnerable people to have dignity conditions of life haven access to micro credits

4.1.2 What it needed Ethics/CSR/Sustainability in Finance?

- Competitive business incorporating in their operations International standards Principles and Guidelines toward to sustainability.
- Business not only thinking in their wealth fare but in the wealth fare of the stakeholders.
- Business with strong ethical principles and values that are in the same line with the corporations principles..
- Companies with a ethical climate (ethical identity) and values and those ethical climate and values sharing by all of the Employees
- Bushiness that cooperates with society and governments trying to balance the society, decreasing the poverty, helping the society expectations in education, cultures.
- Business conscience and with sensibility in front of the people more vulnerability the poorest. Trying to help to balance the society.
- Business with the objective of be business (profitable but also Sustainable focus on social, environmental and economical issues)
- Business with SRI Investments toward to sustainability concept even if it is less profitable.

4.2 Ethical/ CSR/SRI/sustainable finance in a macro level:

This New Financial paradigm is extended to several part of the finance. In this part it is presented information and analysis about the (1) Social responsible investor, (SRI) in Macro-level. More over other area as (2) Cleantech Venture capital, (3) Financial services, (4) Institutional investors, (5) International institution will be analyzed.
4.2.1 Social Responsible Investments (SRI):

Socially Responsible Investing or Socially Responsible Investment is often abbreviated to (SRI). This term SRI is called also as ethical investments, sustainable investments (Renneboog, L, Horst J.T, Zhang, C, 2008), also, as mission investing, responsible investing, double or triple bottom line investing, and green investing.

In the SRI prospective, corporations are encouraged by SRI investors to improve their practices on environmental, social, and governance issues. The SRI’s meaning goes in directions of investing by investors based on financial, social and environmental criteria. The profile of the investor is important: we can make to categorizations about: Regular investors and Ethical/SRI investors –Socially responsible investors.

An ethical/SRI investor seeks to align investor’s personal values and financial goals by choosing to invest in companies and organizations that show values comparable to their own. The term in this sense have an ethical, social responsible connotation. A regular Investor alight him own interests pursuing financial proposal.

Socially responsible investors include individuals and also institutions, such as corporations, universities, hospitals, foundations, insurance companies, public and private pension funds, nonprofit organizations, and religious institutions. Institutional investors represent the largest and fastest growing segment of the SRI world.

There are several strategies on SRI. Many think that screening, (avoiding companies that do not meet certain social or environmental criteria) is the most important. But SRI has three levels, of which Screening is just the starting point. The other levels are Community Investing and Shareholder Activism, both of which could have more furthers beneficial impacts because they seek to engage and transform a situation rather than ignore it.

Frequently, a claim in social responsibility is presented in the way that it is thing that investors must sacrifice return in order to invest more in line with their values. It has been demonstrated that social screens and shareholder engagement do not harm financial return, and in some cases have improved performance. (Orlitzky, Schmidt, and Rynes, 2003) perform a meta-analysis of past studies and find a statistically significant positive association between corporate social performance and corporate financial performance. In this paper the author in their funded that (1)
there is a positive association between Corporate social responsibility CSR and Corporate social financial performance CFP, (2) The link is significant and varies from high significantly to moderate significance There are some studies. Russo and Fouts (1998) find that companies with better environmental records appear to have better-than-average returns on assets.

Socially responsibility investment (SRI) attracts a lot of investor’s attention (Galema. R, 2008) according to social invest organization forum (http://www.socialinvest.org/) approximately 10% of all US investment are managed using screen process relate to social responsibility. It is approximately 2.7 trillions out of 25.1 trillion in the US market investment today. In that way SRI is a sustainable strategy that is focused on long-term wealth to shareholders and also to the other groups of stakeholders of the company -communities, employees, customers and so on-. It is considered that Social Investors invest their money to build a more sustainable world, earning competitive returns both today and over time.

- **Definition of Social Responsible Investment, (SRI)**

Socially Responsible Investments (SRI) “takes many forms, It could be as simple policy to avoid to avoid sin stocks” (Boatright. J.R, 1999). In this documents social responsibility Investment makes referent a strategy investment that is addressed to maximize both social wealth (social good-common good) and financial return, shareholders value but also stakeholder value. “In other words Social Responsible Sustainable Investments is a strategy that integrates the social, environmental criteria into financial analysis” according to Calvert. In that way a Company who works in the criteria of social, environmental integrating into the financial part has a competitive creation of ADD value in Sustainable investments. These companies are positioning their self in a competitive advantage in the industry.

Moreover, company Value in the long term, improving the society, in which they operate, decreasing poverty, helping with education, housing solutions and so on. SAM defines sustainable investments as “An investment approach that applies research on extra financial indicator of corporate competitive to invest globally in securities selling below some valuation levels. SAM call this research and extra financial indicator “sustainable research” there are companies that are positioning their self in a competitive advantage in their industries, since the competitive advantage determines a company’s share of overall value added, sustainable companies share better to position to create shareholder value and stakeholder value.
The term of SRI/Ethical investments generally exclude companies with interests in armaments, oppressive regimes, nuclear power, tobacco, vivisection, gambling, alcohol and pornography. Environmental (and ethical) investments are also screened for positive factors. These include companies that represent a long term benefit to the community such as environmental improvement, conservation of resources, a good record of dealing with staff and customers, and an equal opportunities policy.

The term of SRI evolved, social investors who prefer to invest on (choose-make the decisions to invest on) corporate practices that are environmental responsible, workplace diversity, product save, and quality. Some of them (not all) avoid business evolved in alcohol, tobacco, gambling, weapons and other military industry and abortion.

The concept of social responsibility implies monitoring, internal monitoring but also external in the social, environmental and economical issues and in that way companies will management and external will be monitoring those impacts.

The term of SRI involved also ethical funds.

- **The roll of social responsible investors:**

The social responsibility investor -individual or Institutional as social ethical funds- chooses to align their personal values and financial goals by investing in companies and organizations that show values comparable to their own. In the eyes of social investors, the selection of investing (SRI) depends of their beliefs and values. In that way a social investor’s manifest that their beliefs and concerns are toward to environmental, social and economical issues implementing some reasonable strategies when he will decided where or not to invest:

The Social responsible investors considered some aspects in their investment decisions:

- Align their investment portfolio chooses with their personal values avoiding companies that not meet certain standards. Standards that are in based on the criteria of social, environmental and performance.
- Analyze corporate sustainable strategy of the companies focus on social, environmental and economical performance.
- Identify companies with better long term financial performance through the analysis of social and environmental factors.

- **Brief history of Social responsibility investment:**
The social responsibility investors beginning with religions investors, approximately 100 year ago, when religious people decided to invest in companies not evolved in alcohol, tobacco and arms. But before of that period informal responsible investment existed: For example many believe that social investment began with Religious Society of Friends, whose members are known as Quakers. In 1758 the quarter Philadelphia year meeting prohibit member from participating in the business of buying and selling people. In nineteenth century, the roots of ethical investment can be found among religious movements including Quakers and Methodists. They concerns included issues such as temperance and fair employment conditions.

Religious institutions have been involved in social investment since long time ago. One of the most representative adopter of the SRI was John Wesley in 1703-1791 one of the founder of Methodist church, one of his speeches was the “Use of the money” that mentioned not to harm your neighbors through your business and avoid industries like tanning and chemical productions that can harm the heath of the workers. “At the beginning of the 1900s, the Methodist Church began investing in the stock market, consciously avoiding companies involved in alcohol and gambling” according with EIRIS.

During the twentieth century more churches, charities and individuals began to take account of ethical criteria when making investment decisions. Initially the US was more advanced in developing the ideology and in 1971 the Pax World Fund was set up which avoided investments associated with the Vietnam War. The apartheid regime in South Africa accelerated the promotion of ethical investment in the 1980s.In the twenty centuries there are some institution, rating agencies as 1983 EIRIS as the UK’s first independent research service for ethical investors. And then a year later the UK’s first ethically screened unit trust was launched by Friends Provident - the Stewardship Fund. Over the last 20 years the growth in ethical investment has been immense, today other institutions in America as: SRI-devoted trade organization the Social Investment Forum, KLD research analysis, and Calver investments and others.

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53 Quakers born in England in 17th century and were people dissatisfied with the set and Christian groups at this time
• Social ethical Funds

Ethical funds are increasing gradually on 2006 there were 388 green, social and ethical funds operating in Europe. This growing is positive “considering the difficult context for asset management and financial investment activities all over Europe”. (Siri Group, 2006) see the graphic:

**Figure 4.1 Number of SRI Funds, cumulated in the period 1999 to 2006, Europe**
The source of information is from Siris (Siris, 2006)

![Graph](image)

A number of increasing funds in Europe in 2005-2006 is presented 388 funds.

**Figure 4.2 Total asset under management for SRI in Europe**
The source of information is from Siris (Siris, 2006)

![Graph](image)
According to the graphic, the asset management decreased in 2003: 12.150 mill Euros comparing with the year 2001: 14.428 millions of Euros, and then an increased was presented for the years 2004: 19.934 min Euro, 2005: 24.127 min Euro and 2006 with 34.009 min euro.

**Figure 4.3 SR Funds assets per country in Europe (min Euro on 30 June 2006)**

France increased more than 100% in the asset under management and now by far the second country in Europe with about 20% of market share. But also Switzerland and Belgium, with +95% and +75% are closing to the UK that is the largest (28%) (Siri Group, 2006)

Social ethical Funds are funds put money together of hundreds of investors into a single fund which in turn invest in stock markets. The choice of investments is influenced by a range of different social, environmental or other ethical factors. Basically to invest social ethical funds use several strategies (methods) for instance (1), screening, (2) shareholder advocacy- a preference or best in class and (3) community engagement. **CSR/SRI Sustainable/ ethical Methods (strategies)**

**A. Screening**

In this (strategy) method companies may be excluded from investment because they could be involved in certain negative activities such as nuclear power, tobacco, animal testers and so forth. This approach considering to included companies for positive contributions to society, the environment such as energy efficient technology, organic farming and others. Many of the
long-standing ethical funds have some form of screening. Those funds include both positive and negative screens, is the practice of evaluating investment portfolios or mutual funds based on social, environmental and good corporate governance criteria.

Screening may involve including strong corporate social responsibility (CSR) performers, avoiding poor performers, or otherwise incorporating CSR factors into the process of investment analysis and management. Generally, social investors seek to own profitable companies that make positive contributions to society. “Buy” lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world. It seems that many social investors avoid investing in companies whose products and business practices are harmful to individuals, communities, or the environment. Screening not only implies exclusionary, or only involves negative screens. In reality, SRI screens are focusing to invest in companies that are leaders in adopting clean technologies and exceptional social and governance practices.

**B. Shareholders activism or Advocacy**

*A preference or best in class approach* would apply social, environmental and ethical guidelines to give a preferred selection or help to identify the best companies in which to invest, when all other factors such as sector type and financial performance are equal, for instance, a fund manager who has the investment in oil companies will choose only the companies which have a record of good social and environmental performance. These efforts include talking (or “dialoguing”) with companies on issues of social, environmental or governance concerns.

Advocacy also frequently involves filing, and co-filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, gender/racial discrimination, pollution, problem labor practices and a host of other issues. Shareholder resolutions are then presented for a vote to all owners of a corporation.

The process of dialogue and filing shareholder resolutions generates investor pressure on company management, often garners media attention, and educates the public on social, environmental and labor issues. Such resolutions filed by SRI investors are aimed at improving company policies and practices, encouraging management to exercise good corporate citizenship and promoting long-term shareholder value and financial performance.

**C. Community investing or engagement**
The third approach – engagement/ Community investing - will actively encourage companies to adopt social and environmental best practices.

Community investing directs capital from investors and lenders to communities that are underserved by traditional financial services institutions. Community investing provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack. In the US and around the world, community investing makes it possible for local organizations to provide financial services to low-income individuals and to supply capital for small businesses and vital community services, such as affordable housing, child care, and healthcare.

- Ethical Sustainable/SRI Trend in USA

Social Responsible investments are increasing and growing very fast. According to social investment forum, the SRI in the US is growing faster, approximately 11 percent of the assets under professional managements in the US, It means approximately 1 of every 9 dollars are involved in SRI. The growth have been increasing rapidly, 324 percent from 639 billions in 1995, To 2,71 trillions in 2007. During the same period the normal assets under professional managements increase less. It was 260 percent from 7 trillions to 25,1 trillions.

A. Socially Screened Funds

Socially and environmentally screened funds – including mutual funds, exchange traded funds (ETFs), closed-end funds, other pooled products, and alternative investments increase to 201,8 billions in 2007 and comparing to the year of 2005 it was 13 percents which means about $179 billions tracked. From 2005 to 2007 the total of number of socially and environmental founds increasing from 201 to 260: In Mutual funds, Exchanged traded funds (ETFs), Close end funds, alternative Investments funds, other products,

Figure 4.4 Total Net Assets Screened funds form 1995-2007 in US

Source: social investment forum report, 2007
Table 4.1 Socially Screened Funds 1995-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Net Assets (In Billions)</th>
<th>Number of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>$12.00</td>
<td>55</td>
</tr>
<tr>
<td>1997</td>
<td>$96.00</td>
<td>144</td>
</tr>
<tr>
<td>1999</td>
<td>$154.00</td>
<td>168</td>
</tr>
<tr>
<td>2001</td>
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<tr>
<td>2003</td>
<td>$151.00</td>
<td>200</td>
</tr>
<tr>
<td>2005</td>
<td>$179.00</td>
<td>201</td>
</tr>
<tr>
<td>2007</td>
<td>$202.00</td>
<td>260</td>
</tr>
</tbody>
</table>

Figure 4.5 Numbers of Screened Funds in the United States

Source: social investment forum report, 2007
Why this growth in SRI is presented:

Companies, included financial companies are increasing commitment toward to social, economical and environmental concerns in their operation, including ethical criteria in the operations. In the selection of the ethical criteria the group of stakeholder’s community is evolved. The group stakeholders provide an integrated platform for firms and those communities’ stakeholders to discuss their joint responsibility and the desirable level and feasibility of standards. (Ingenbleek, Binnekamp, Goddijn, 2007). Discussing together those ethical standards, make attractiveness for investors, who prefer to invest in those companies even if they earn less. For them those companies have ethical concerns, company reputation. “Investors are willing to accept suboptimal financial performance to pursue social or ethical objectives”. (Renneboog, L, Horst J.T, Zhang, C, 2008)

“Over the past decade, SRI has experienced and explosive growth around the world reflecting the increasing awareness of investors to social, environmental, ethical and corporate governance issues” (Renneboog, L, Horst J.T, Zhang, C, 2008) Money of assets managers are increasingly incorporating social and environmental factors into their investing practices. Investors are increasing the demand for social investing products and services from institutional and individual investors, socially concerned high-net-worth clients, individuals seeking SRI options in their retirement and college-savings plans and “mission-driven” institutions such as foundations, endowments, labor unions, and faith-based investors.

New products and new SR fund are driving growth in socially and environmentally screened funds, especially ETFs and alternative investment funds such as social venture capital and double- and triple-bottom-line private equity. The offer of these products is increasing in diversity. The volatility in SRI funds is lower than in conventional funds flow volatility (Renneboog, L, Horst J.T, Zhang, C, 2008).

Social responsible portfolio managements pursue both social and financial goals and concerns. A growing concern about climate change and its risk for portfolios is intensifying the interest in SRI among money managers. Investor demand is growing for portfolio opportunities in clean and green technology, alternative and renewable energy, green building and responsible property development, and other environmentally driven businesses social Investments forum (2007). Social responsible investment has growing quickly, process that integrates social
environmental and ethical consideration into investments decisions making (Renneboog, L, Horst J.T, Zhang, C, 2008).

Big large and expanding institutional investors are actively supporting shareholder resolutions on social, environmental, and corporate governance issues and joining investor coalitions such as the Investor Network on Climate Risk, to make their concerns known about the risks and opportunities associated with issues such as climate change. Some rating agencies are creating spaces to support and discuss those CSR topics such as Ceris “ Agency of rating ethics base of operation is in Boston.

Increasing numbers of institutional investors, fund families, and money managers are incorporating criteria related to the crisis in the Sudan into portfolio management and shareholder advocacy, whether through targeted divestment or active engagement with companies exposed to the risks of doing business in such a volatile, repressive regime according to the (Social Investment Forum, 2007).

The expansion of market-rate opportunities and other industry developments are making it easier for broad investors to participate in the community investing. Institutional investors are allocating portions of their portfolio to community investing options considering the social impact of their investments. Investors are also increasingly investing on international microfinance opportunities to promote positive social and economic development abroad. (Social responsible investments forum, 2007)

4.2.2 Other sustainable ethics/CSR financial areas in macro-level: (1) Sustainable index (stock exchanges), (2) Cleantech Venture capital, (3) Financial services, (4) Institutional investors, (5) International institution.

Sustainable finance, Ethical responsibility, is the incorporation of the sustainable strategy that goes toward to the creation of the long run shareholders and stakeholders value, through the attention of risk, reputation risk, and the integrations of the 3 dimensions in it: Ethical, CSR and sustainable.

The sustainable development represents the ethical investments in the framework of guidelines ethical principles that refer to moral, before than legal, responsibility of the individual focus to
the common interest (stakeholders) not individual interest (shareholders). Ethical investments, social responsible investments are expression that refers to the incorporations of ethical values in the definitions of investments chooses. Historically, the religions American congregations were the first to take care of the coherence, between principles and destination of the investments. Later other institution as State, civil services, Foundation, Universities some pension funds and insurance companies have started to share this attention. An Investment is ethically in its former and general definition when it pursues aims of social justice and then it service the commune good (Lanza, Calcaterra, Perrini, 2002), when the investment profits has its origin and benefits in the work of a group of people –managers, employees, suppliers, clients the group of stakeholders-

In Financial Areas mainly the term of corporate social responsibility is associated for some to Corporation and not to financial institution as bank or insurance companies. This conception need to be change. Financial institutions are increasing the corporate world. They are seeking ways to improve internal operation, improving customer’s services, employee’s practices and work-place conditions, to be come more involve in local community development and to contribute to reduce ecological damage. At the same time, they are recognizing the importance of their own direct external influence on customers for their products and services as well as through more active ownership of shares in their portfolios, the visions is changing to a New paradigm in finance ethical Finance.

This New Financial paradigm is extended to several part of the finance. In this documents it will be mentioned how CSR have been taking place in some financial areas such as: Cleantech Venture capital, Financial services, Institutional investors, and International institution.

1. Sustainable Index and Stock exchanges - Financial Market interest

The interest is growing from the past until today. They are sustainable indexes to meet the growing demand from ethical fund managers and retail investors to define instruments to assess companies social and environmental printed.

Sustainable index are way to measure the performance of a companies regarding to social, environmental and economical issues. This information is useful for investors, managers, NGOs, Governments, consumers who want to know and invest in companies with social responsibility concerns. In this part some index will be mentioned:
The Sustainable index evaluates companies according to sustainability principles. The indexes the objective is to attract investor interest in companies focus on environmental and social concerns parallel with economic results and showing that they often outperform the market average.

The important aspect of the sustainability in indexes includes strategic commitment and organization at board level, concrete management initiatives and instruments, use of new technology and a host of industry-specific measures. The ratings use specially developed questionnaires, analysis of company reports and policies and assessment of stakeholder relations. Where possible, it incorporates methods already in the market such as the Global Reporting Initiative, Sustainability standards for environmental reports, and SA8000 standards on the social side.

There several sources for investor in order to get information about who to invest in social responsible companies: one is social responsible index, information in company’s website and extra financial (stone, 2001).

Sustainable report helps index to have the sustainable information. Sustainable reports is the best way to communicate the firm responsibility compromise; this report employs a big variety of guidelines reports

- Sustainable indexes in financial markets:

  A. FTSE4GOOD Index:

- FTSE 4 Good global index of socially and environmentally responsible companies.

FTSE4Good, in 2001 was created by the English company FTSE\textsuperscript{55} in partnership with UNICEF in 2001. The company Inclusion is based on information contained in companies' annual reports and Websites. To be eligible, a company there is a criterion that meets size criteria (market capitalization and liquidity), as well as specific requirements in one of three areas: working toward environmental sustainability, developing positive relations with stakeholders, and

\textsuperscript{55} FTSE is an independent company owned by The Financial Times and the London Stock Exchange.
upholding and supporting universal human rights. The index is review semi-annual in March and in September. The data are providing by the Ethical Investments Research Services (EIRIS) and the net work for international partners. The companies selected are selected from the FTSE Index.

The companies have showed, discloser and visibility commitments its sustainable growth effort, and it is contributing to the Group's commitment to sustainable growth. The new index series took principled business practices to the next level by establishing criteria that had to be met to earn the FTSE4Good designation. UNICEF contributed to the development of the criteria required for listing of a company in the FTSE4Good Index. In addition to monitoring the practices of other corporations, FTSE is modeling ethical business standards and invited UNICEF to become the formal beneficiary of the index. From inception of the index to the end of 2006, FTSE4Good raised a total of $2.5 million to support UNICEF programmers.

The activity of selection, is conducted with negative and positive criteria and in conformity with the best in the best class approach, is working with the British agency, Ethical Investment Research Services (EIRIS), the prevalent sector in the index is the financial sectors followed by energetic sector.

Currently, about 40 per cent of eligible companies worldwide meet the FTSE4Good criteria, demonstrating that the requirements to be a good corporate citizen are challenging but achievable. The FTSE Group helps guide corporations to reach the designation through its Responsible Investment Unit, which engages with firms affected by the introduction of new standards to help them understand the changes and the requirements. In this research the Index that we will be used for the analysis is the FTSE4good Index, considering inclusion and exclusion of Generali Insurance Company in the index.

The FTSE4 good indexes are compounded by 5 benchmarked index representing the Global, European, Japan, UK and US markets. To be including in the index companies need to demonstrate that they are working in the following fields: Environmental management, Climate change mitigation and adaptation, Countering bribery, human and labor rights and supplies chain and labor standards.

- Dow Jones Sustainable Index:
The Dow Jones Sustainability Group Indexes, which screen companies according to stances on economic, environmental and social developments, was created on 1999.

The Dow Jones Sustainability Indexes are the first global indexes dealing with the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, Limited and SAM they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios.

- **Dow Jones Sustainability World Index**

The Dow Jones Sustainability World Index (DJSI World) covers the top 10% of the biggest 2,500 companies in the Dow Jones World Index in terms of economic, environmental and social criteria. This index was first published on 8 September, 1999.

The methodology for the selections of the indexes can be synthesized in the followed steps:

1. **Estimations of sustainability:** For every business the sustainability is estimate through out three principal sources of information:
   - Analysis of the questionnaire based on the general criteria and a specific one on the belonging sector; both directed filled by the business.
   - Analysis of the published documents and relation of the business, for example the adhesion to internal business ethics code, environmental and social balance
   - Analysis of the relation with the stakeholders

The performance of each of the 2500 business of the Dow Jones are evaluated on the basis of standardized scoring system which determines a maximum score of 74 points that are evaluating in the capacity to dealing with risk: environmental risk, the wealth of employees, present of certification (up to 36 points), opportunity risk, existence of instruments for reporting on the social-environmental impacts, incentives to employees, relation with staff (up to 36 points) as well as on the basis of the quality and of the accessibility of the information on the sustainability of the business (maximum 2 points)
2. Classification inside of industrial sector: The business is evaluated and repositioned in the industry (64 in total).

3. Eligible industrial sectors: Only the sector in which the business has achieved the highest score, at least 14, 8 (1/5 the total score that is 74) belong to the DJSGI.

4. Eligible business: Inside each industrial group only the business that has reached a sustainable evaluation of at least 1/3 of the business with the highest score in the index composition.

5. 10% Selection: For every industry sector, only the 10% of the best business are selected.

6. Capitalization limit: Each of the 64 DJSGI sectors much not exceeds the 20% of the global Dow Jones capitalization. If this happens, the share in excess will have to be excluded.

- **The Ethical Index Euro (EIE) and the ethical Index Global (EIG),**

The Ethical Index Euro (EIE) and the ethical Index Global (EIG), started in October 2000 and in January 2002 respectively from Italian E. Capital Partners. L’EIE includes 150 shares among the business with more capitalization in Europe, selected on the basis of negative positive criteria and in conformity with the best in class approach. The revision of the index is made every 6 months and determine the examination of the subsistence of the qualitative (ethical) and quantitative (capitalization and floating) criteria.

In the end, the EIG included a basket of 750 socially responsible businesses chosen from throughout the worldwide markets. In the EIG and EIE the sector prevalent in the index are the financial business sectors in both indexes. It represents the 28, 60% and 38, 31% respectively of the total.

- **Ethibel Index measure of sustainability (Vigeo)**

The ethibel Index, present the score of the whole company of selections performance. This is a check of the sustainable criteria that gives a picture-scheme of the company analyzing if the company is taking seriously the commitment social responsible. A financial performance of the world's leading companies in terms of sustainability for institutional investors, asset managers,

56 For more information ethible index visit [http://www.ethibel.org/subs_e/2_label/sub2_2.html](http://www.ethibel.org/subs_e/2_label/sub2_2.html)
banks and retail investors indicate the index.

The Ethibel Sustainability Index (ESI) groups two global indices: **ESI Pioneer Global, ESI Excellence Global** and two regional indices: **ESI Pioneer Europe** and **ESI Excellence Europe**.

- **The Domino Index**

It was created on 1990 by the American ethical rating agency KLD starting from Standard & Poor 500, depurated from almost 250 business share which don’t go beyond the screening on the basis of the basis of determine positive and negative ethical criteria, to which 150 business chosen out of the S&P 500 for their social-environmental performance are added. The compositions of the index are periodically reviewed.

- **The Domini Social Equity Fund** (trading symbol: DSEF)

It is one of the oldest and best-known socially responsible index funds. The fund seeks to track the Domini 400 Social Index (DSI) - an index comprised of companies that pass multiple broad-based social or ethical screens - and has an expense ratio of 0.96%. It was launched in June of 1991, and boasts higher returns than the S&P 500 index since the fund's inception.

2. **Cleantech Venture capital (CVC)**

According to Joel Makower, co-founder of Clear Edge, Cleantech is "a diverse range of products, services and processes that harness renewable materials and energy sources and substantially reduce the use of all resources and dramatically cut or eliminate emissions and waste." Essentially, CVC products and services optimize productive use of natural resources, eliminate or reduce waste, and add economic value. Examples include software to manage a building’s air conditioning, and ozone-water systems for disinfecting fruits, solar cells, wind and bio fuels, and water filtration systems and so on.

In 2002 the concept of Cleantech was defined as a distinct concept of venture capital (VC) investment. In these four short years it has become the fifth largest and fastest growing segment of venture capital. It is expected to grow 9 or 10 percent between 2006 and 2009 of the of the expected $85 bn in new global venture capital investment.
This high growth is increasing because: high and volatile oil and commodity prices, less expensive and more reliable alternative energy technologies, increased interest by major corporations, national and local policy initiatives, and advances in science and technology, the rise of serial entrepreneurs, large investments by pension funds, and maturing energy technology. Over 50% of CVC is from professional VC firms. In addition, to CVC, individual ‘angel investor’s, also, play an important role in providing equity and working capital to start-ups.

Mainly there are two interesting driving the (CVC) (1) thinking on this interest is in part socially or environmentally motivated, but also (2) most practitioners are attracted largely by the increasing number of investment opportunities in Cleantech companies and the high expected returns. CVC in Europe is quite similar to that in North America. In volume it amounts to about 50% of that in North America. Investments in renewable energy play a relatively more important role in Europe, while advanced materials and nanotechnology are less developed. The UK represents approximately 40% of CVC in Europe.

3. Financial Services:

The following excerpts from a recent survey identify some of the significant trends in CR practices of financial services institutions (banks, insurance companies.)

The financial sector has made significant progress on CR in the last few years. The sector had seen responsible for protecting human rights and the environment as an issue for industrial companies. It is now increasingly recognizing its own responsibility and the benefits as well. It is increasing interest, where money is invested and the growing. Financial service providers have started to incorporate CR in their core business. Surprisingly to many, almost 60 percent of global financial institutions included in the KPMG survey publish an annual CR report. It will generate long-term financial benefits for having social and environmental considerations in term of reputation.

It comes as a surprise to learn from the KPMG Survey57 mentioned above that 60 percent of the banks in their sample prepared sustainability reports in 2008. Among the actions highlighted in these reports are the following:

- Adapting products and services to meet the needs of increasingly diverse customer base

• Sustainability reporting in accordance with the Global Reporting Initiative guidelines.
• External assurance of sustainability reports
• Developing model business practices and new social and environmental indicators
• Micro credit: lending to the poor who otherwise could not obtain financing for small and micro businesses
• Ethical funds, loans, and other financial services screened for social and environmental criteria
• Internal environmental management, eco-efficiency measures, e.g. one bank reports that 80% of all paper consumed is from recycled paper
• Suppliers: sustainable procurement policies and practices
• Diversity: promoting and reporting on the inclusion of women, ethnic minorities, disabled, and other groups within different levels
• Socio-environmental financing
• Developing a new management and assessment culture which incorporates CR
• Employee-friendly working programmers (ex: equal opportunity, flexi-time, work life balance...)
• Community involvement through philanthropy and volunteer work

Moreover, ethical/CRS/ sustainable principles have been developed. One of the most significant developments in terms of CR have been the Equator Principles guidelines for project finance. Those attempt to encourage socially responsible lending in emerging markets, and the growth of sustainable asset management in Asia, Europe and the USA. Under pressure from external stakeholders like customers and NGOs, the main challenges for the financial sector are the incorporation of CR related risks and opportunities in mainstream asset management, credits and insurance activities.” (KPMG, 2008)

The Equator Principle is a "third party" code of conduct supported by the International Finance Corporation in which some 40 “E-banks” agree to consider the social and environmental implications of all large scale, capital intensive project-financed investments. Seven of the top ten global finance lenders have accepted the code to enhance their reputation within their institutional environment.

Financial Institutions adopt Equators principles financial Institutions (EPFI) principles in order to insurance that the projects they finance are development in manner that is socially responsible and reflect sound environmental management practices. In that way projects that affect ecosystem and communities should be avoided where possible and if these impacts are
unavoidable, they should be reduced, mitigated or compensated appropriately. Financial
Institutions will not provide loan to projects where the borrowers will nor or is unable to comply
with our respective social and environmental policies and procedures.

The principles apply to all project financings globally with total project capital cost of US $ 10
million or more and cross all industry sectors. Financial institutions any provide loans to project
that content principles from 1-9:

1. Principle 1: Review and categorizations:
Each EPFI will be review the project according to social and environmental (including labor,
health safety…. ) and categorize such project base on magnitude and potential impact and risk in
accordance with social and environmental screening criteria of the international fiancé
corporation.

2. Principle 2: Social and environmental assessment
For each project assessed as being either category A or B the borrower has conducted a social
and environmental assessment ( Including labor, health and safety )to address to satisfaction of
social and environmental impact.

3. Principle 3: Applicable and Sentimental standards:
For project located in non OECD countries and those located OECD countries not designated as
High-income, as defined by the World Bank Development indicator Database and the then
applicable IFC Performance Standards and the applicable industry Specific EHS Guidelines
(EHS Guidelines). The regulatory, permitting and public comment process requirements in
high-income OECD Countries, as defined by the World Bank development Indicator database,
generally meet or exceed the requirements of the IFC performance standards and EHS
guidelines.

4. Principle 4. Actions Plan and Management System:
All projects should prepare an action plan which addresses the relevant finding and draws on the
conclusion of the assessment. This plan will describe the actions needed to implement
mitigation measure, corrective actions, and monitoring measure necessary to manage the impact
and risk identified in the assessment. Borrowers will need to establish and maintained or
establish Social and Environmental Management Systems that address to management this
impact and corrective actions tom complete with social and environmental laws and regulations
and requirements applicable Performance Standards and EHS Guidelines an defined in the AP.
5. **Principle 5: Consultation and Disclosure**

The government or Borrower third party has to consulted with project affect community in a structured and culturally appropriate manner.

6. **Principle 6: Grievance Mechanism**

It is important for all borrower establish a scaled to risk and grievance mechanisms as a part of the management systems.

7. **Principle 7: Independent Review**

For all category A and B projects, an independent social or environmental expert not directly associate with the borrower will review the assessment.

8. **Covenants**

It is related to the incorporation of covenant (coherent, agreements) linked to compliance, for category of project A and B, the borrower will covenant in financing documentation.

9. **Independent Monitoring and Reporting**

To insurance monitoring during the live of the loan should sure the EPFI.

10. **EPFI Reporting**

Each EPFI adopting the equator principle commits to report publicly at least ANNUALLY ABOUT ITS Equator Principles implementation process and experiences, taking into account appropriate confidential consideration.

**4. Institutional investors:**

There are international principles that regulated institutional investors for instance: The UN’s Principles for Responsible Investment (PRI), launched in April 2006, represent a major support for sustainable investment. A group of the world’s largest institutional investors controlling more than $4 trillion in assets have agreed to follow a set of common guidelines when they assess environmental, social and governance (ESG) risks and opportunities, and to apply these principles to all investment. The principles also reaffirm the primacy of fiduciary responsibility, declaring that because ESG issues can affect investment portfolio performance, investors acting
in the interest of beneficiaries need to take them into account. The six principles are (www.unepfi.org):

1. Incorporate environmental, social and governance issues into investment analysis
2. Be "active owners", integrating the issues into their ownership policies and practice
3. Seek "appropriate disclosure"
4. Encourage other investors to adopt the principles
5. Work together to put the principles into practice
6. Report on what they are doing to implement the principles

An important issue for institutional investors is their fiduciary duties with respect to environmental, social and governance, (ESG) issues. The Asset Management Working Group of the UNEP FI asked for a large law firm, "Is the integration of ESG issues into investment policy (including asset allocation, portfolio construction and stock-picking or bond-picking) voluntarily permitted, legally required or hampered by law and regulation; primarily as regards public and private pension funds, secondarily as regards insurance company reserves and mutual funds?" The reply: "far from preventing the integration of ESG considerations, the law clearly permits and in certain circumstances, requires that this be done. Ultimately, the findings of this report should encourage fiduciary duty to shift its responsibility from the idea of maximizing profits, that in "agency theory", duty to shareholders should instead consider an investor’s wider legal obligations to weigh ESG considerations into each investment and subsequently provide reasonable returns for their shareholders."

5. International institution

International Institutions as United Nations Environment Program Finance Initiative (UNEP FI) is a global partnership between UNEP and the private financial sector. UNEP FI works closely with the 170 financial institutions that are signatories to the UNEP FI Statements, and a range of partner organizations, to develop and promote linkages between the environment, sustainability and financial performance. Through regional activities, a comprehensive work programmed, training activities and research, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental sustainability practice at all levels of financial institution operations. www.unepfi.org/investment. They set up guidelines to keep the balance in financials operations.
UNEP FI Asset Management Working Group is a global platform of asset managers that collaborate to drive the mainstream integration of ESG issues in investment decision-making and ownership practices. The Working Group consists of 14 asset managers with combined mandates of 1.7 trillion USD.

European Bank for Reconstruction and Development: EBRD was created in 1991 to assist the transition of former communist nations to market economies and operates in countries in central and Eastern Europe and central Asia. It recently announced a Sustainable Energy Initiative to encourage clean and renewable energy projects and make the region more energy efficient. It aims to double its financing for energy efficiency and renewable energy projects, while developing feasibility studies for newer renewable technologies.

The International Finance Corporation (IFC) is a huge lender to the private sector in the developing world. Its loan portfolio of $19.3 billion is now subject to its new and stronger social and environmental ‘Performance Standards’. These standards will also apply to project lending by the 41 banks and other financial institutions that have signed the Equator Principles covering loans for large projects (> $50m) which amount to another $100 billion. www.ifc.org

UN Principles of Responsible Investment: issued this document which is signed by institutional investors representing more than USD 4 trillion in assets under management.

4.3 Ethical/CSR Finance in the Micro level

In the micro-level social finance to cover the most vulnerable people that cannot access regular services from big institutions given them the opportunity to decrees poverty conditions, generating dignity quality of live and possibilities to create there own entrepreneurial business.

6. Social Investing in more micro-level: Social finance and micro credits

One definition of social investing is the transfer of financial resources and business skills and discipline to the social sector. This includes include community development financial institutions (CDFIs), socially responsible angel investing, microfinance, and social enterprise.

- Community development financial institutions. CDFIs fill both a market gap and a social need by providing loans and other financial services to low- and moderate-income communities and minorities who are underserved by traditional financial outlets. In the United States, there are an estimated 1,000 CDFIs with about $10 billion in assets. These institutions take the form of community development banks, credit unions, loan funds, venture capital funds, and micro-
enterprise funds. A recent report, "CDFIs: Providing Capital, Building Communities, Creating Impact" provides comprehensive data on this field in the USA. According to social funds\textsuperscript{58}

- Angel’s investors. Another of the unheralded facets of social investing is the socially responsible "angel investor.” Angel investors are individuals who are willing to provide seed, start-up, or growth capital to high-risk companies in return for an expected large return on investment. A national network of angel investors in the United States, members of the non-profit organization Investors’ Circle, have been dedicated to providing venture capital to socially responsible start-up companies since 1992. These investments are largely for-profit but the expected returns are lower than those expected from investments in ventures without clear social or environmental missions. One study in the United Kingdom showed a lower percentage of successes among social angel investments (35 vs. 53\%) as well as lower returns but the percentage of bankruptcies was the same (about 35\%).

7. Social Finance (Micro level for more vulnerable people):

Currently, the term of Social finance is extended to Social banking, ethical finance, and sustainable finance and so on. The objective of social finance international environment is focalized to helping the most vulnerability population. In international environment, organization as ILO\textsuperscript{59}, International Labor Organization refers to social finance\textsuperscript{60} as “financial instrument to promote decent work” that is toward to get sustainable finance with a social goal helping the most vulnerable populations. With the globalizations and according to the different necessities of different populations and in development and developing countries some initiatives have been developed to help to decrease and promote the equality in the world, with the collaboration of the academics, industries, international bodies, it necessary to transfer the theory in practices according to the requirements of the real word (Fanni, 1991).

The Social financial instruments make references to: credit, saving and other products that help the poor people to cover better with risk, take advance of income generating opportunities; organization and have a voice. These instruments (services) refers to credits for income

\textsuperscript{58} Social Funds www.socialfunds.com

\textsuperscript{59} ILO, the government body adopted a circular 246 (31-01-2007) of “Microfinance for decent work”: Organization and responsibilities of the Social Finance Program (SFP). http://www.ilo.org/public/english/employment/finance/download/c246en.pdf the page was consulted in April 25\textsuperscript{th} 2007

\textsuperscript{60} ILO organization social finance, http://www.ilo.org/public/english/employment/finance/index.htm, this page was consulate in April 25\textsuperscript{th} 2007
generations, for standing o expanding micro-enterprises, saving, emergency loans, remittance, guarantees, payment services and insurance, some insurance companies as according to ILO organization. The microfinance have a very high impact in vulnerable population, it helps the working poor –employed o self employed- in different forms for example: to arise and diversity incomes, to package incomes around wage earning, to manage risks, stabilize incomes and reduce vulnerability.

The people that are poorer, the more vulnerability, have the less possibility to access and are beneficiated from a credit service, in that way micro credit is toward to contribute to the poverty alleviation, poverty reduction. The poverty will not be solved with one or two income generation loans even for an enterprise (entrepreneur) or housewife. For that reason the financial system for poor should be sustainable in the time, it means there will be a possibility for the uses a long term of financial access, and also, it will be adjunct guidance (arrange to financial services) to guidance to management of risk –including saving, emergency loans, insurance and so on.

In case of the entrepreneur and specifically the owners of the small enterprises that generate jobs often fine that they can not get the capital needed for other objectives. Because banks prefer to finance big organizations, microfinance, in that way they can reduce transactional cost and the risk. The market is toward to work with the big institutions, and in that way the market fails to generate enough information about the risk for small ad medium enterprises.

There is an initiative by ILO designed to central bank microfinance observatory61 that helps them to familiarize to microfinance: For example:
The first microfinance observatory was development in 1990 in a partnership with the central bank of the state of Africa del west in the framework of PA-SMEC.

8. Microfinance

According to the Woman World Bank62 the microfinance is a “financial mechanism to help poor to transformer their entrepreneurial enterprises into self-sustainable business proving them

61 http://www.ilo.org/public/english/employment/finance/policy/observ.htm page was observed in 25th of April 2008
62 WWB, Woman World Bank page http://www.womensworldbanking.org/ this page was consulted in April 29 2008
with financial information, investment capital and other services including serving and help insurance”.

The microfinance is created due that formal financial institutions have been presenting the inability and unwillingness to serve the needs of low-income clients. In the currently year microfinance industry have give space to microfinance institution (MFIs) to operate in the a wide range of legal structure including a growing number of regulated financial institutions (RFIs) according to Cristina Frank, Senior associate, Capital market groups Woman’s World Banking.

Much of the current interest in micro credit stems from the Micro credit Summit in Washington D.C. (2-4 February 1997). At that time, a goal was set to reach 100 million of the poorest of the poor with small loans by the end of 2005. As of the end of 2004, 67 million "very poor" people were reached by micro-credits, of whom 84% were women. More recently, the Micro credit Summit has set new goals for 2015 to 1) reach 175 million of the world’s poorest families affecting some 875 million family members and 2) ensure that 100 million poorest families raise above the $1 a day threshold. These are stunning goals and critical to fulfillment of the Millennium Development Goals.

Micro credit, which is called also, microfinance, is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. It has proven an effective and popular measure in the ongoing struggle against poverty, enabling those without access to lending institutions to borrow at bank rates, and start small business.

An aspect of micro credit that has contributed greatly to its success is its "credit-plus", this is an approach - where the credit is not focus only to low income groups, but also is integrated with other developmental activities such as community organizing and development, leadership training, skills and entrepreneurship management, financial management supportive group and so on according to WWB, World Bank. As the global financial system, microfinance institutions continue to grow on the back of their record for low risk and solid returns Microfinance gives small-scale financial services for instance: loans, savings, insurance and money transfer to poor customers who would otherwise not have access to banking services. Micro credit, an important component of microfinance, involves offering very small loans to poor clients without written contract.

The Nobel laureate Muhammad Yunus in Bangladesh, microfinance has gained a reputation for
near-zero default rates and a stable rate of return over the long term for investors. These returns are estimated at about 6% a year, with the best-performing funds returning three or four times that amount. New sources of funding in microfinance have emerged in the past two or three years. These include socially responsible investment funds, venture capital funds with a social cause, private equity funds, multinational banks and capital markets, according to the Consultative Group to Assist the Poor (CGAP), a leading advocate of microfinance.

In Asia is the biggest operation of microfinance. Around of 70% of the global market for microfinance is presented, with India having the largest number of clients followed by Bangladesh, according to Micro Banking Bulletin, a non-profit organization that studies microfinance institutions. In India, microfinance institutions have government-facilitated access to finance from banks. Recently, multinational banks have started enrolling in the schemes for microfinance institutions. Their participation remains a small fraction of their overall business. But most of them list microfinance in their sustainability programs.

- Impact of recession in financial crisis and microfinance

Because of the trouble in global financial markets with the financial crisis, investors continue to put money into Asian microfinance. A $40m fund aimed at financing start-ups in microfinance was launched in October by the India-based Institute for Financial Management & Research Trust, supported by a group of investors including India’s Icici Bank. In May, ASA International of Bangladesh, ranked number one on the Forbes list of top 50 microfinance institutions, raised $125m in funding – the largest ever by a microfinance institution – through private equity firm Catalyst Microfinance Investors.

Industry sources say that as other investment options are shrinking, private equity and venture capital funds will turn their attention to microfinance. “Microfinance offers low-risk investment. Uncertainty of capital markets is driving investors to microfinance,” says Siddharth Sharma, director of IntelleCash, a Mumbai-based microfinance consulting firm.

The 50 top microfinance Institution

In the previous table only 13 companies were included the source of information is from Forbes 63

63 Forbes’ first-ever list of the World's Top 50 Microfinance Institutions were chosen from a field of 641 micro-credit providers, http://www.forbes.com/2007/12/20/microfinance-philanthropy-credit-biz-cz_ms_1220microfinance_table.html
<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Risk</th>
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<tr>
<td>ASA</td>
<td>Rank</td>
<td>56</td>
<td>40</td>
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<tr>
<td>Bandhan (Society and NBFC)</td>
<td>India</td>
<td>42</td>
<td>1</td>
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<tr>
<td>Banco do Nordeste</td>
<td>Brazil</td>
<td>213</td>
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<td>Colombia</td>
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<td>FONDEP Micro-Crédit</td>
<td>Morocco</td>
<td>196</td>
<td>1</td>
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<tr>
<td>Amhara Credit and Savings Institution</td>
<td>Ethiopia</td>
<td>118</td>
<td>42</td>
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<tr>
<td>Banco Compartamos, S.A., Institución de Banca Múltiple</td>
<td>Mexico</td>
<td>295</td>
<td>11</td>
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<tr>
<td>Association Al Amana for the Promotion of Micro-Enterprises Morocco</td>
<td>Morocco</td>
<td>133</td>
<td>1</td>
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<tr>
<td>Fundación Mundo Mujer Popayán</td>
<td>Colombia</td>
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<tr>
<td>Fundación WWB Colombia – Cali</td>
<td>Colombia</td>
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<td>4</td>
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<tr>
<td>Consumer Credit Union 'Economic Partnership'</td>
<td>Russia</td>
<td>19</td>
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<tr>
<td>Fondation Banque Populaire pour le Micro-Credit</td>
<td>Morocco</td>
<td>219</td>
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</tr>
<tr>
<td>Microcredit Foundation of India</td>
<td>India</td>
<td>7</td>
<td>185</td>
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- **Microfinance and some interesting data**

  - By 2010, investors will put an estimated **$20bn** into microfinance institutions worldwide.
  - The volume of microfinance loans grew from **$4bn** in 2001 to **$25bn** in 2006.
  - Since 2004, foreign funding of microfinance has doubled to **$4.4bn**.
  - Estimated funding gap – the extra amount needed to make microfinance services available to the world’s three billion poor: **$250bn**.
  - Estimated number of micro-credit borrowers worldwide: **152 million**.
  - Worldwide there are more than **seven** savings accounts for each loan account.

  Sources: Deutsche Bank report “Microfinance: an emerging opportunity”, December 2007; and the Consultative Group to Assist the Poor.

- **Range of returns in microfinance operations**

  Organizations on the Forbes 2007 list of top microfinance institutions report eye-popping returns on assets. Top performers were: Banco Compartamos of Mexico (23.2%), FONDEP Microcredit of Morocco (19.2%), Banco Do Nordeste of Brazil (17.2%) and ASA of Bangladesh (14.4%).

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Micro Banking Bulletin reports that 63 of the world’s top microfinance institutions had an average rate of return of 2.5%, after adjusting for inflation and after taking out subsidies

- **Bangladesh and micro credit banking**

According to the United Nation the country of Bangladesh is cited as one of the least developed country in the world with highest population. This combination result in extreme poverty and malnutrition. The 87% of the Bangladesh’s population leaves below the poverty line in extremely poverty. The poor population is willing to work long and hard and provide for their families. Must have them work hard (15 hour per day) performing laborious task to development tools with bamboo, and they are paid the equivalent two US dollars per hour.

- **Model of Banker to the Poor, (Muhammad Yunus)**

Muhammad Yunus, Nobel price of peace, 2006 founded the Grameen Bank, Banker to the Poor. The Grameen bank was established under the Grameen Bank ordinance, 1983, to alleviate poverty trough financial services, especially by providing micro credit. According to the prospectus offering public, Grameen one: scheme two, June, 2008. He developed a form of micro-lending to the landless (farmers) poor in Bangladesh that succeeded in lifting (helped) members of 68,000 villages out of poverty (Yunus). In the model exhibited by Grameen Rural Bank, a strong community base is necessary to forming a sustainable farming system.

Each community becomes one centre; within each centre one person is selected to attend Agricultural training that will keep each village, informed on new farming technology and new farming methods. Or another project and according with the job they already know. Some times they need training.

This person is also responsible for conveying (transmit) his training to each family farmer for a small fee.

In this way, the educated agriculturist earns a profit from his work and helps each individual family farm earn more money through smarter farming methods and new technology made available through micro-loans. The educated agriculturalist, teach in topics of grain and rice farmers, poultry and egg farmers, tree farmers, silk work farmers, silk thread collectors,
weavers, dyers, and seamstresses. The micro credits are made to the person who is in a
group support and all of them work together. This micro-loan solves problems of foot,
education, malnutrition’s and health care to protect the parents and the children from disease
and natural disasters.

- The role of the Philanthropy in Finance

A simple definition of "philanthropy" is "the provision of finance to any organization for
predominantly social benefit." Some consider it to be "giving back to society." It can be in
the form of grants, returnable grants, loans, and equity where the primary purpose is
creating social value, not personal gain. Philanthropy can be either corporate or individual
giving; it can be both, for example in the case of corporate matching of contributions of
employees to certain causes. In the case of corporate philanthropy, it can be simply direct
financial contributions to social organizations or it can be strategic contributions closely tied
to corporate strategy and operations, as is the case in cause-related marketing. Another form
is micro-philanthropy, mainly associated with microfinance, self-empowerment, and
the alleviation of poverty.

Philanthropy in the USA: Philanthropy, though increasing in Europe, has long been an
American thing. Today there are 68,000 charitable foundations in the US, most but by no
means all, are corporate sponsored. Last year $34 billion was contributed, according to the
foundation Center. Charitable urges - and tax deductibility – can take many forms from
sponsoring a United Way or Community drive, to matching employee contributions to their
favorite charities, to taking up collections for a specific cause, to pro bono work by
professional firms, to establishing corporate charitable foundations. Increasingly these
corporate foundation grants are focused on needs related to the company’s purpose and
strategy, for example a real estate firm contributing to Habitat for Humanity. What
motivates such generosity? Unquestionably donors perceive a positive effect on their
goodwill and reputation - greater customer loyalty results according to the Council on
Foundations. Another benefit of philanthropy is its effect on morale - people take pride in
working for companies that do good work and are perceived to be socially conscious.

Of course, wealthy people also establish and manage foundations. The Bill & Melinda Gates
Foundation, to which they have contributed over $30 billion, is a notable case. Because of
the worthiness of its focus on elimination of diseases in the third world and the quality of its
management, Warren Buffet has recently decided to contribute over $30 billion of his fortune to be managed through the Gates Foundation.

- **Venture Philanthropy**: A more recent form, Venture Philanthropy (VP), is the subject of this brief section. The European Venture Philanthropy Association definition of VP focuses on six characteristics: high engagement, multi-year support, tailored financing, organizational capacity-building, non-financial support, and performance measurement. It is distinguished clearly from venture capital in that the bulk of VP activity is based on non-returnable grants.

Researchers of VP would do well to read and study a recent working paper entitled, "Venture Philanthropy: The Evolution of High Engagement Philanthropy in Europe" by Rob John dated June 2006.

- **How big financial institutions are concerned about important issues such as:**

  1. **Third World debt.**

     In British the government is committed to the World Bank and the International Monetary Fund's (IMF) Heavily Indebted Poor Countries (HIPC) initiative, to eliminate unsustainable debt in the world's poorest countries. According to the British Bankers Association (BBA), most UK banks have written off or swapped their poorest country debts. The third world debt first came to the attention in the world in 1982 when Mexican government, confronted by high interest rate and low commodity prices admitted his inability to service hundreds of commercial bank loans. During the 70s and 80s money was frequently lends to prestigious projects or wasted by corruptions leaving many countries with not means of repaying the original loan and having to pay interest very greater that the original sum borrowed. In response international leading agency began a campaign in UK to cancel the debt in developing countries. Since mid 90s the bulk of third world debt countries have been transfers to International Monetary Fund (IMF) and World Bank.

  2. **Lending to the arms trade**

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64 Swaps involve the repayment of debt being exchanged for undertakings by the debtors to reinvest the money, in local currency, in development programmers at home instead.
Any bank can decide not to lend to anyone directly involved with the arms trade, or supplying arms to particular regimes. Harder to control is where a customer's product finally ends up. Banks are taking different approaches to consider these issues. Some banks will have policies on this; some will have guidelines rather than absolute exclusions.

3. **Human rights and lending to oppressive regimes**

The Bank of England publishes a Sanctions list of countries with which UK companies including the banks must not. Where there are no official sanctions in place, it is up to the banks to decide what they will do with regard to any lending within a country, and to businesses which trade with it. The risks of non-repayment and of adverse publicity will play a part in the decision process about a particular regime or region.
Chapter 5

5. Ethic/social responsibility/Sustainability ratings

How social responsibility is measured and monitoring? This is the answer that tries to respond this chapter. Some topics that are discussed in this chapter are: CSR and ethics rating agencies, ethics rating methodologies, rating agencies in practicing, rating ethics and investors and managers and other topics, rating ethics and standards of sustainable report.

5.1 Rating Ethics Overview

Today in the world there is a global transformation with increased demand to performance not only financially but to be good corporation citizens. One of the most important aspects of this transformation as it was mentioned in the previous chapters is the Corporate Social responsibility topic: Topics as climate change, community health, education, poor reductions, employees social polices, energy and waste consideration, innovation, and SRI and development are very important topics. In an International a survey$^{65}$ conducted by KPMG 2008, in 22 countries and with more than 2200 business around the world, tree year ago, it was founded that 50% of the companies included CSR in their reporting in the currently survey the number increase to 80%. This is a call not only for reporting the accountability and transparent all of these activities by the companies but also systems of measure and monitoring constantly this Social responsible performance of companies.

Ethics Rating is one of the methods to evaluate the performance of the company; there are others as Index ethics, balance score and so on. Ethic/Social responsible rating is judgment about of the performance of the firm; a quantities and qualitative method to evaluates and measure corporate economic, social and environmental, -sustainable approach- in other words the company performance toward to corporate social responsibility commitment.

The rating emitted by ethics rating is useful for investor in order to get information on: (1) Investment analysis, (2) Performance measurement, (3) Asset allocation, (4) Portfolio hedging, (4) Companies with social and environmental concerns and so on. More over helps managers and companies to identify reputation risk, and to do more for management these kinds of risk and reduce their impact in environmental footprints, and increase their social commitments with communities and stakeholders. Ratings ethics give an understanding about companies are going

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$^{65}$ The KPMG’s survey is doing every three year
toward to socially-responsible or sustainable, and if they extent and include social, environmental, ethical issues within their corporate strategy.

Rating ethics with their models and methodologies go to balance the level of environmental and social and socially investment risk with the company’s managerial and financial capacity to managements that risk successively and profitable into the future. Risk alone is one of third part of the equation, what is also important for investors is how that risk is probably to be management and what upside profit opportunities may be created and captured according to Innovest. The risk could be and opportunity when it is management appropriately.

5.3 Ethics/CSR/sustainable and ethics rating

In the economical studies the concept of CSR is development concerns about those stakeholders, in that way maximizing the wealth of the shareholder but also the other stakeholders evolved in the operation of the firm. Organizations need to respond for the stakeholders changing the classical view enunciated by Freidman where the responsibility of the firm is in the direction of generation of profit maximization of the wealth of the shareholders. In the manager use money from the shareholders with the social objective or to improve voluntary the services of employed, or investment in ecological projects, or making contributions to the development to the communities in which they operate go in contrast to the will of the shareholders. More over in that way the firm only are respond for the concerns of the shareholders, responding for the social expectation of the stakeholders, it is a firm voluntary initiative.

Considering that CSR/SRI is the “in the voluntary integration for the firm/company in the concern about social and environmental in the company commercial operation and in the relationship with the interesting parts (stakeholders)” according to the Green Book European commission July 2001, ethics rating measure this voluntary performance and this integration and is a compromise of the organization to improve this voluntarily concern to improve the societies, communities in which they operate. As indicate the etymologically the term of responsibility indicate the will, wish or necessity to responds to stakeholders that are the interest part and affected part by companies operations.

Corporate Sustainability that is a business approach that creates long-term shareholder value, and is a voluntary approach, that implies corporation have to improve the societies in which
they operate. In that way the concept of sustainable company performance is incorporate in the firm, which considers social, environmental and economical issues that are measured by ethics rating. **In sustainable companies CSR is incorporated in the company strategy and ethics rating measures the performance of the firm’s base on this strategy.** Business organization’s performance is affected by their strategies in the market and in the not market environments, (Orlitzky, Schmidt, Rynes 2003)

CSR in a sustainable strategy in the firm embraces opportunities and **managing risks** deriving from economic, environmental and social developments, and a way to measure and identified those opportunities and risk is thought out rating ethics. In a CSR systems operation globally in general Governments, Companies, investors, managers, employees and every players in the system, is being influenced by ethical criteria, social, environmental, economical issues. They affect the performance and the value of the companies. Their decisions are alighted in the same directions that their ethics and corporate ethics in which they operate, as a result corporate performance is presented. That Company performance is evaluated in rating ethics and affects the share value and the value of the firm.

“Over £5 billion is already invested in companies screened for good social, environmental and ethical practice by retail investors representing nearly half a million UK investors. Many churches, charities, pension schemes, local authorities and governments worldwide are also investing according to socially responsible investment policies. That means money is being consciously diverted from companies that cannot demonstrate this good practice. And many investors are engaging with companies in which they invest or are considering investing in to persuade them to improve their policies and practices” said EIRIS.

Corporate sustainability leaders achieve long-term shareholder value and rise community expectation. As a Voluntary option of the firm, CSR goes beyond of the law- The law is the minimal standard that firms need to do-. CSR could be considered the space between law concerns and social expectation. Every time corporations should act more and create more to performance better and to go on the direction to satisfy social expectation, -sustainable developing-.

This CSR/sustainable developing is an intangible asset, long term value for the firm in a world achieving economical and growth is important to be concern about present and futures generation, in the social, environmental and economical terms, this is a sustainable development. Historically this it have been talked by governments creating a policy and incentives for the
sustainable development. However, due to economical power in the private sectors over the past half century, and increasing interconnectivity between development and developing countries because of the globalization, companies have a major role to play in the pursuit of more sustainable futures. “In that way companies can play a vital role by ensuring that the direct and indirect impacts caused in the normal course of business are positive for the environment and people, and by using their vast reserves of knowledge innovation, creativity and other sources to help find solutions to some solutions of the social and environmental challenges we are facing in a global society today and in the future” (KPMG, 2008) for social expectations.

Rating ethics is an evaluation of this CSR compromise and make a conscience to continuing improving the social performance to rich every time a better ranking. Firms in the Rating ethics are evaluated for their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks and acting more socially responsible. CSR is an investment for the company, that is reflected the more in the long term, see chapter 2. Some issues that are driving in international environments, which are in the direction to sustainable aspects and companies, are reporting and base on that rating agency, are considering doing the rating are: See the following graphic. The source is according to the (KPMG, 2008) surveys conducted to G250

**Figure 5.1 Drivers for corporate responsibility reports**

![Figure 3.6 Drivers for corporate responsibility reporting (G250)](source)

The source of information is used with the permission of KPMG (KPMG, 2008)
In the CSR and ethics rating diagram, it is seen that CSR: A voluntary company behaviour that firms have, is the space (line blue) between the law concerns—the corporation needs to do minimal—and social expectation. Acting, reporting, measuring. They need to report this CSR behaviour and one way to measure this performance is through ethical rating. In a world of changing expectations, companies must account for the way they impact the communities and environments in which they operate. It is important to see that 80% of the largest companies are now reporting social and environmental performance according to a survey conducted by KPMG in 2008, but will these companies report past the CSR compromise? In that way it is considering that companies need to report the CSR responsibility strategy—Sustainable strategy—with defined objectives, management systems, and stakeholders’ engagement, reporting and assurance. One of the judgements of the report quality and accordance are the readers, stakeholders, companies, and rating agencies. It is important to see that the stakeholders involved are becoming more formalized; it is important to see who the stakeholders are and how they are involved, and proof that deeply.

From risk management and reputation risk reporting and measured by external—rating agency, sustainable index—and internal auditors that gave a qualification and a parameters to continuing improvement the sustainable compromise and minimizing their dangerous and maximizing their opportunities is important to facing the new challengers.

5.2.1 Acting, reporting and reassurance the CSR

As we see in chapter 2 the concept of CSR involves this space beyond the law social expectation, that involved and CSR/sustainable strategy, institutional approach (UN, ODCE, and EU norms and guidelines), stakeholders holders expectation that are measure by rating agencies: Behaviour and performance that is evaluated in rating ethics. See Diagram of CSR/Sustainable development and ethics chapter 2 pages 55.

Inside of the corporation the CSR started from the top and it evolved all employees, and the external stakeholders. It is important that inside for the CSR will be responsible a department and also the financial officer need to be part of it. This tendency is increasing in international environments. It initiative facilitates the communication with rating agency. According to (KPMG, 2008) this tendency is increasing and inside of the organization some departments in companies are in charge for this functions, see the following figure:

**Figure 5.2 Department where corporate responsibility is management**
The topic of CSR is very important in driving interest and investments in sustainability to the mutual benefit of companies and investors. As this benefit circle strengthens, it will have a positive effect on the societies and economies, in the stakeholders, in both in the developed and developing world. The ethics rating measures the CSR performance that is an opportunity for the firm when it is integrating the strategy and the management. There are important factors that rating ethics evaluate base on CSR/sustainability in the framework of international principles and standards: Social, environmental and economical issues.

Companies that are managing their responsibilities in these social, environmental and economical areas properly are less likely to experience problems relating to risk and reputation. Rating ethics measures this performance, thought out different systems and could work in education plans engaging with companies on such issues, and encouraging them to put appropriate systems in place, and this may help to improve their financial performance. Companies should Set their sustainable strategies and out objectives - and keep a careful registration of progress. And to show that improving evidence of those efforts, measure. Ethical rating is an instrument of measure of this performance. The rating ethics could support their evaluation in systems that permit to access to company information, systems that guidelines corporate social responsibility acting and reporting:

The most significant for reporting systems are GRI, to have more information in GRI reporting initiative see charter 2.
• **Systems to access the company’s sustainable development performance:**

The global reporting initiative\(^{66}\): (GRI)

Lafarge rating agency uses the framework defined by the Global Reporting Initiative to assess its sustainable development performance to determine the CSR compromise. In international environments companies are using GRI guidelines standards and others to report CSR according (KPMG, 2008) information used by rating agency, see the following figure:

**Figure 5.3 Reporting Standards and guidelines used by companies**

The source of information is used with the permission of KPMG (KPMG, 2008)

The Global Reporting Initiative (G.R.I.) was created in 1997 to develop guidelines on suitable for measuring the economic, environmental and social performance of companies. The G.R.I. is working closely with the **United Nations Environment Program** (U.N.E.P.) to develop an international standard for sustainable development.

- The guidelines for ISO 14001 environmental management standards.
- United Nation Global Impact, 10 principles.
- Equator principles, Principles for responsible investments, and Environmental, social and Governance (ESG) framework issue by Goldman Sachs, used in the financial sectors.

\(^{66}\) GRI G3, to see more information consult chapter 2 Business ethics and CSR
Human rights have emerged as a fast changing issue for business to watch the UN Norms on the responsibility has been the topic of ongoing dialogues between business, governments and civil society on the expectation of big business.

Global reporting is increasing the initiative, companies in their reporting to be ranking also include formal assurance statements for example according to an survey development by KPMG a Swiss corporative, to G250 companies, as financial, insurance and securities sectors in the industry occupied the last location with 20%. The first sectors were mining. See the following figure.

**Figure 5.4 CR Reporting per sector**

The source of information is used with the permit ion of KPMG (KPMG,2008)

![Figure 1 CR reporting per sector](source: KPMG Global Sustainability Services, October 2006)

### 5.3 Ethics rating, Investor and managers

Many investors want to know that the companies in which they put their money (they invest) are good corporate citizens, and care about better environment performance. Socially responsible investing is becoming more popular, and there are more tools than ever for investors who wish to keep their money greener. Social Responsible investment is *growing widely*. **Those are ethical investors, a ethical investor alines their personal belifes in the same directions that chooses of investments.** There are studies and evidence that demostries that ethical investors are loyal that conventional investor in regular funds, in 1997 a computing simulation study confirm that ethical investors are loyal to ethical investments eventhough they
performance badly or was ethically ineffective according to (EIRIS, 1999). According to the Social Investment Forum’s 2007 Report on Socially Responsible Investing Trends those $2.71 trillion in total assets under management mentioned before are using one or more of the three core socially responsible investing strategies—screening, shareholder advocacy, and community investing.

From 2005 to 2007, social investing growth at a rate of 18-percent, increasing from $2.29 trillion in 2005. Approximately, one of every nine dollars under professional management in the United States today -- 11% of the $25.1 trillion in total assets under management tracked in Nelson Information’s Directory of Investment Managers—is involved in socially responsible investing. Most of the assets are in separate accounts, portfolios managed for institutional and individual clients.

Rating ethic is a tool, in that way Investors and society use the rating ethic for have a valuation judgments of the firms. The ethics rating measure the performance of the company and give information to investor to allocate assets based on this information. As it was mentioned in charters 3, increasingly, investors are diversifying their portfolios by investing in companies that set industry-wide best practices with regard to sustainability and they use the ethics rating agency judgments.

Investor perceived in the ethics rating this corporate social responsibility key for successful. They find that the corporate sustainability is goes in the directions to increase long-term shareholder value. They know that corporate sustainability performance can now be financially quantified. Investor perceived the leading sustainable company’s world wide

Rating agencies provide a quantitative analyzes regarding with risk managers, corporate strategy, company citizen, stakeholders relationship, company governance and quantitative analysis regarding to the financial quantification of their sustainability strategy and their management of sustainability opportunities, risks and costs. And additionally rating agency will be motivated to increase long-term shareholder value by integrating economic, environmental and social factors in their business strategies and to development sustainable planes to increase the wealth in which corporation operate. They motivate companies to development sustainable products and services and to work with development standards in their supply channels.

This ethic rating is important for Investors, ONGS, consumers, managers and financial managers and permits them to:
• Identify the level of commitment show by the company toward CSR (Sustainable performance)
• Identified the reputation risk
• Invest in companies that demonstrate best practice environmental, social and economical management
• Minimise social, economical and environmental risks within their portfolios
• Capitalise on the benefits of strong social, economical and environmental management, such as eco-efficiencies and an improved brand image
• Encourage managers, investor and companies to be more responsible
• Integrate ethical rating analysis into financial analysis
• Select in SRI funds which are the most interested to invest in, because this information give a initial set selections (ethical companies)
• To exercise the dialogue with the share holders of company in which investor are investing.

- Advantages of rating ethics/corporate social responsibility, for example:

- Help predict a company’s futures overall and financial development
- Identified more and less risk investment
- Reveal ethical weakness and strengthens in the company
- Helps companies restore the confidence if they are doing the right thing

A company basically is evaluated in the sustainable performance in social, environmental and economical, performance regarding to the stakeholders. There are several levels in which this management performance could be evaluated in a rating ethics, for instance: (1) Ethics/social responsibility toward to employees, (2) Management/corporate governance, (3) Heath and safety, (4) Country law ethics and context, (5) Ethics/social responsibility toward suppliers, (6) Ethics/social responsibility toward to the environment, (7) Ethics/Ethics social responsibility toward to the community, (8) Ethics/social toward to competitors, (8) Ethics/social toward to
investor’s owners, (9) Communications process for corporate ethics, (10) Ethics/social responsibility and toward foreign subsidiaries and others.

The rating is established by specialized ethical agencies, large of them used international principles as UN, OEDC and EU standards and international principles:

A rating agency (ethics rating) uses **systems to access** the company’s sustainable development performance base on international principles and standards.

### 5.4 Rating ethics and rating agencies:

Rating agencies through the rating ethics give a score and classification to companies according to a grade, base on their CSR/sustainable performance. The sustainable company performance evaluation by the rating ethics indicates a degree in which Companies and Public Companies, take into account environmental, social, economical corporate governance, corporate social responsible base on international principles and standards; which constituted risk factor, reputation risk factors, in the definition and implementation of their strategy and objective.

This classification is made over the adequate information available, in order to from a credible opinion. The analytical process is divided in several categories and it is important to guarantee the quality of the information.

Currently the rating ethics are increase interest. There several systems the sustainable compromise of the company. In that way is complement information with financial reports -this rating is telling investor about the futures focusing on the past data-. Ethics rating increasing demand because they have an advance over financial ratings. Ethics rating is measure the Management and company performance in the areas of social, environmental and economical, also the relation with the stockholders. The management performance is who evaluate the financial performance process, *which are slower to change and probably less volatile that financial results.*
The ethical social responsible company commitment is measure by specialize entities in CSR, SRI, called ethic rating agencies. Theses ethical rating agencies rank and compare companies above and below of their industries and with other industries.

Rating Agencies in General do independent or partnership research covering different areas including animal testing, corporate governance, environmental performance, genetic engineering, human rights, financial performance, human rights, employee’s policy that are evaluate in a formal measure that is rating ethics. The ethic rating provide by ethics agency is useful for: financial institutions, government bodies, pension funds and high profile charities, private investor clients, institutional clients, institutional and retail fund managers, banks, private client brokers, charities and religious institutions.

Thought our ethics ratings ethics agencies provide information for client of those rating agencies. Information that those user of ethics rating (clients of ethics rating) need to put their own principles into practice when making investment decisions. Also they provide a tailor education to match clients' social and environmental concerns. The information that they provide need to be organize to information systems or software about ethical portfolios.

As it was mentions in Chapter 1 philanthropy is a very important issue of Social responsible/sustainable company compromise and in that way the ethics rating also gives useful information to charities to select investments according to their chosen ethical criteria.

Rating agencies in the process of rating ethics evaluation engages in constructive dialogue with the companies, and their stakeholders, in the way to research and to ensure they have the information they evaluated update and accurate.

It is important to mentions that in the process of rating ethics emotions and also during the diary performance and rating agency works collaboratively with other bodies to promote and publicise the concept of ethical or socially responsible investment. In that way an educational and training system is implemented for ratings agencies. The trainer goes to implement also the strategies of investments as screener, stakeholder’s advocacy and community evolved.

The analyst and the teams that evaluate the researchers need to be specializing, it is a very important issue to remark, and for example experts in the fields such as human rights, supplier channels, and child labour, employee’s policy, philanthropy, environmental issues, animal testing and environmental performance. That should analyze appropriate sources of data as
company annual reports to government and regulatory data, industry and specialist journals, and other independent sources, more over the annalist analysis data directly on companies via questionnaires, letters and direct dialogue.

It is important to involve the stake holders, and to establish in which directions the research will conducted for example: doing consultation with clients and the identification of trends and significant issues using the researchers’ expertise and networks. The monitoring continuously the company’s behaviour by rating agencies is the financial press, ethical press is important...

Rating agencies should be considered claver topics in social, environmental and financial in the process of evaluation of rating agencies. For instance in the real practices some topics as the following are important: The source of this points selections were taken from EIRIS:

**Table 5.1 Issues that are important according to EIRIS to classified companies**

<table>
<thead>
<tr>
<th>Environmental Issues</th>
<th>Social issues</th>
<th>Governance</th>
<th>Other issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Environmental policy</td>
<td>2. Community involvement</td>
<td>3. Codes of ethics</td>
<td></td>
</tr>
</tbody>
</table>

Additionally to considers aspect of information about philanthropy and community plans developments are important.

Rating agencies give information also to consolidate international rating Index: (1) DJSI (based on research by SAM), (2) FTSE4GOOD (based on research by Eiris), and (3) Aspi Eurozone (Vigeo) between other.
There are several examples of rating ethics agencies for instance: (1) AEI, Agenzia Europea di, Investment, AEI (bruxels-Italy), (2) Avance SRI research- Vigeo (Italy), -Vigeo (France), (3) Ceres (USA), (4)EIRIS (UK), (5)Innovest (6) SAM

Table 5.2 Rating Agency Table important points’ characteristics:

<table>
<thead>
<tr>
<th>EIRIS (UK) (Ethical Research Investment Services)</th>
<th>Ethibel/ VIGEO Stock at Stake and the ESI index</th>
<th>Innovest -AEI , Agenzia Europea di Investimento Brussels, Italy</th>
<th>SAM and the Dow Jones Sustainability Index (DJSI)</th>
<th>Ceres (USA) Boston</th>
</tr>
</thead>
<tbody>
<tr>
<td>It has its base in London. It is one of the leading providers of non-financial data for the socially responsible investment market in Europe. This agency does not publish any ratings per se, but the SRI index produced by FTSE - FTSE4GOOD - is based on EIRIS research. For example there is a Financial company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock at Stake (member of the Ethibel Group) was merged with Vigeo in 2005, and the ESI index (Ethibel Sustainability Indices) are part of Vigeo, which distributes them. The respective research databases have also merged. And the independent organization &quot;Forum Ethibel&quot; still defines the contents of the ESI, notably based on both SRI performance and ethical considerations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovest Strategic Value Advisors, an international research consultancy, analyzes the performances of businesses in relation to environmental, social and strategic governance factors. It focuses on their impacts on the competitiveness, profitability and performance of their share price. Innovest provided an important point of reference to evaluated companies: It is the Global 100 in which Global ranking selected Innovest to provide data provider. It which analyzing extra-financial drivers of risk and shareholder value, including companies' performance on social, environmental and strategic governance issues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>based in Bruxelles, is an Economic Interest European Group (EIEG) which aims at promoting company ethics, Corporate Social Responsibility and Socially Responsible Investments. This work is carried out according to the principles and guidelines of the United Nations, the Organisation for Economic Cooperation and Development and the European Union.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The activities of the AEI Standard Ethics include: issuing ethical ratings to companies and nations; research and training; monitoring and control</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratings issued by the Zurich-based analysis institute SAM reflect the company's performance based on economic, social and environmental criteria. Each one of these three areas is based on several weighted sub-criteria. The overall rating is based on a weighted average of the three key areas, benchmarked against the average for the sector.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Complementing the information about Ceres (Boston), Ceres launched and coordinates the Investor Network on Climate Risk (INCR), an alliance of leading U.S. institutional investors that collectively manage $5 trillion in assets. Ceres brings together environmental and investor to push business to meet environmental and social and to include that in their financial analysis defining a plan to following. It is putting community investor, business and other interest parts working together to pursuit sustainability Ceres work in with GRI. According to Abby Joseph Cohen when Chief US investment strategies at Goldman Sach said: “when I do my investment
decisions making I want to be base on the facts, Ceres have been a very important interlocutor leaders bringing together bring together the sciences the world street people to and also other leaders to and we all understand why the science and work in that interaction and how to respond for that. Ceres is divulging and working with the GRI standards (see chapter 1). Try to create conscious about sustainable. Ceres is working strongly in climate change initiatives. It is conducting an survey.67

His mission is very important: Mission: Integrating sustainability into capital markets for the health of the planet and its people. As it was mentioned there are other rating agency:

- Oecom research AG (Germany)
- GES Investment services (Sweden)
- Institute for strategy research (Hungary)
- KLD research and analytics, Inc
- Scoris (Germany)
- StoreBrand
- Sustainable Assets management (Switzerland)
- SiRI (Switzerland)

5. 5 Rating ethic’s Methodology In General

The rating agencies used differences methodologies that evaluate the social, economical and environmental company’s performance focus on international principles, but in general the point will be summary in a general way in some steps in this steps the role of analyst is very important aspect to considered

5.5.1 The role of the analyst in the process of ethics rating

The role of the analyst is an important part of the ethic rating analysis. The selection of She/he with appropriate expertise and knowledge to review the information plays a fundament part. She/he is responsible for conducting the ethics rating and need to have the CSR knowledge, information in standards and international principles, objective judgment, the capacity, he need

to know what is he is doing. He needs to receive the appropriate training to know the methodology of ethics rating, criteria, weighed, doing samples of test of the methodology.

Some the analyst needs to meet managers to review in details keys factors that have impact on the ethic rating, and to analyze the quality of manager assessment. They need to prepare and be prepared to attend the meeting.

The meeting is very important, it need to be scheduling by the analyst in advance at least several weeks, to assurance the mutual availability of the analyst and the manager, some times. The analyst some times will request some tours in order to understand companies business.

5.5.2 Steps in the Methodology of rating ethics

It is important that before to do rating companies are excluded to do the rating ethics. Because they are in industrial sectors as: Tobacco producer, company evolve in child labour, arms producer and so on. For example according to the FTSE4Good Index, EIRIS to make the rating and evaluation for companies are interested sectors as: Tobacco Producers, Companies manufacturing either whole, strategic parts, or platforms for nuclear, weapon systems, Companies manufacturing whole weapons systems, Owners or operators of nuclear power stations, Companies involved in the extraction or processing of uranium

- The general steps are six and are:

1. Information recollections
2. Information analysis
3. Creation of the model with the model
4. Rating emission
5. Monitoring and Re-classification
6. Education and training

1. Recollection of information.

   In this step external and internal Information is recollected: the ethical rating analyst uses some instruments as questionnaires: specific questionnaires to industry sectors that are
elaborating and distributed to the CEOs and heads of managers and investor relations to the companies. The questionnaire needs to ensure objectivity by limiting qualitative answers through predefined multiple-choice questions. The completed company questionnaire, signed by a senior company representative, is an important source of information for the assessment. Interviews will be used for information clarification and surveys.

Others sources are **companies documentation**: Documents as should be included: Sustainability reports, with information about Environmental reports, Health and safety reports, Social reports, Annual financial reports, Special reports (e.g. on intellectual capital management, corporate governance, R&D, employee relations). All other sources of company information; e.g. internal documentation, brochures and website. The recollection information is focused to points as: Human right and human resources, Environments, Business behaviour, Corporate governance, Community evolved and so on.

Moreover other sources of information is Media and stakeholder reports Analysts review media, press releases, articles, and stakeholder commentary written about a company over the past year. It is important information.

Finally, Personal Contact with Companies other source of value information is that is recollected by the analyst when establish personally contacts with individual companies to clarify open points arising from the analysis of the questionnaire and company documents. This contact could be via telephone, company visits or meetings with the company or public event with the agencies, forum and so on.

**2. Information analysis:**

Classifications of the information, and confronted with the international principles and standards -as UN, OEDC and UN standards and principle, and confrontation them in the way they are presented and communicate, G3 standards- in the field of social, economical and environmental, Bench marketing confrontation. The score of each company or public entity could be classified and generate an extra sustainable (social, environmental and economical) and financial data base. The information of the companies may evaluate and classified using the social and environmental standards based on criteria that differ according to the impact of the industry. For example oil and gas, and mining, Fast food chains should analyzed base on higher standards than media companies or mortgage finance companies, because the footprint of those industries in the environment is higher. Analyzed companies also are focus on the companies pursing good relations with shareholders, and support universal human rights as well.
Companies that produce tobacco, nuclear power, nuclear weapons, or other weapons systems could be excluded the analysis.

3. Model Evaluation:

In this part is made the analysis the information, according to the criteria/parameters. This information is weighted according to the wealth and value. It is important to mention that the evaluation needs to be considering also the industry sector in which the company operate. Some sectors as mining industry represent high risk for the environment.

Several opinions of various analysts over one rating credit should be very helpful as a feedback in the model evaluation, to clarified previous doubts on aspects the nature such as the business nature, the evaluation of the companies’ strategy and for giving recommendation keys.

- Basic criteria:

There are some basic criteria as to analyze: (1) **Company Citizen**: That part is related to Mission, Vision, Values, Principles, Code of ethics, Strategies, Commitments, strategies and so on. It is important to establish values as transparency and confidence in the culture structure are important, according to the AXA group “Confidence means being able to let go and get away without worrying about thing. You know you can count on the other person and you feel supported” and values as those should be a result be result of companies values and culture structure in the company. To incorporate sustainable strategies focus on the social, environmental and economical is important. (2) **Corporate Governance**: Corporate governance is the policies, rules that govern a corporation. (3) The role of the manager: It is analyzed how the leader a build confidence structure and incorporate that in the culture structure. In business where people are essential the role of management for building a structure where values of simplicity, authenticity and honesty in the management is essential according to AXA group sustainable report 2007.

(4) **International control procedure**: The aim of internal control is to prevent and manage the risks relating to Company’s financial protection and wealth management activities, and to ensure that accounting and financial information accurately reflect Companies activities and situation. (5) **Discloser requirements**: Base on regulation and recommendation. For example: Statement on corporate governance as required by section 303A-11 of the New York Stock
Exchange's listed company manual. (6) **Social** Refers to aspect as human rights, and employees motivation, salaries, job atmosphere, insurance, and families compensations.

(7) **Environmental criteria**: Those criteria are designed to evaluated and at the same motivate companies to reach this criteria and lead environmental practices. This criteria evaluated companies that are doing more to manage their environmental risks and impacts reducing their environmental footprint. Companies with high standards, robust environmental policies, and management systems that are toward to management specific environmental risk to the specific company and in the sector in which a company operates. It means the greater of risk in environmental impact the more companies need to do in terms of their environmental policy to control the risk. And the reporting of data transparency is important criteria to consider also.

(8) **Economical**: This fill refers to industrial analysis, financial analysis, market prices behavior but differe of the methodology of the agency rating selected

For example the Dow Jones Sustanible Index: Have some criteria as following to evaluate and weath the information:

**Table 5.3 DJSI criteria for rating evaluation**

This information is from the Dow Jones sustainable index (DJSI) [http://www.sustainability-index.com/](http://www.sustainability-index.com/)

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Criteria</th>
<th>Weighting (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Codes of Conduct / Compliance / Corruption &amp; Bribery</td>
<td>5.5</td>
</tr>
<tr>
<td></td>
<td>Corporate Governance</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>Risk &amp; Crisis Management</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>Industry Specific Criteria</td>
<td>Depends on the industry</td>
</tr>
<tr>
<td>Environment</td>
<td>Environmental Performance (Eco-Efficiency)</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td>Environmental Reporting*</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>Industry Specific Criteria</td>
<td>Depends on the industry</td>
</tr>
<tr>
<td>Social</td>
<td>Corporate Citizenship / Philanthropy</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>Labor Practice Indicators</td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td>Human Capital Development</td>
<td>5.5</td>
</tr>
<tr>
<td></td>
<td>Social Reporting*</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>Talent Attraction &amp; Retention</td>
<td>5.5</td>
</tr>
<tr>
<td></td>
<td>Industry Specific Criteria</td>
<td>Depends on the industry</td>
</tr>
</tbody>
</table>

4. **Rating, categorization emissions**
Finally, a categorization is made using table. This categorization/section is made according with the score which is base on the weighted of model analysis. Then a Suggestion and recommendations should be accompanies to performance better in the week aspects:

According with certain scores it is possible to include the company in sections for example:

Give a score form 1-5 as the rating emitted in the FTSE4GOOD Index in the categorization of environmental 40 companies best European practices: 5 Best practices, 4. Goes beyond good practices, 3 Goode practices, 2. Meet some elements of good practices, good few or not criteria elements.

Firms are categorized according to high, medium and low risk impact according to the sector in which they operate, for example according to FTSE4GOOD environmental index, high impact castors include sectors as agriculture, air transport, construction, vehicle manufacture, and wasted. Medium impact sectors include electronics, and electrical equipments, property developers and public transportation, and low impact sectors include information technologically, media, and telecommunication. A rating to reach the highest rating need to meet and followed all of the criteria. For example according to the rating of the FTSE4GOOD environmental in order to achieve the 5 rating, company in each risk category need to followed these criteria:

In this research this FTSE4good index will be used the more. The index use a classification on the company depending on the impact of the environmental risk impact: (1) High environmental risk impact company, (2) Medium impact, and low environmental risk impact basically in 3 areas as show the following table: Environmental policy requirements, Environmental management Systems (EMS) Requirements and Environmental reporting requirements.

**Table 5.4 FTSE4Good environmental index criteria**

This information is used with the permision of FTSE4GoodIndex[^68]

<table>
<thead>
<tr>
<th>High environmental risk impact company</th>
<th>Policy is public available cover the whole group and meet 5 score and covers 3 activities and:</th>
<th>EMS cover more that 66% of the company and meets 6 indicators</th>
<th>Reports meet four core indicators, 3 desirable indicators and is depending verified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental policy requirements</td>
<td>Environmental managements Systems (EMS) Requirements</td>
<td>Environmental reporting requirements</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Medium environmental risk impact company</th>
<th>Policy is public available and cover the whole group and meet -5 score and covers 1 desirable indicator, - meet 4 score and covers 2 desirables indicator, - Or ISO4001 certification - EMAS registration</th>
<th>EMS cover more than 66% and meet 5 indicators including documents, objectives and target, in all key areas or - covers least 33% of the company meets indicators, or - ISO4001 certification - EMAS registration covers 33% of the company</th>
<th>Reports meet 4 core indicators, and is depending verified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low environmental risk impact company</td>
<td>Policy is public available and cover the whole group and meet -5 score and covers 1 desirable indicator, - meet 4 score and covers 2 desirable indicators, - EMAS registration covers 33% of the company</td>
<td>EMS either cover more than 33% of company and meet 4 indicators or - covers least 33% of the company meets 6 indicators, or - ISO4001 certification - EMAS registration covers 33% of the company</td>
<td>Reports meet -4 core indicators, or -3 core and 2 desirable indicators</td>
</tr>
</tbody>
</table>

5. Monitoring/ Re-classification

After the rating emission companies should be monitoring frequently if it is possible daily. The monitoring process comprises an assessment of a company's involvement in economic, environmental or social crisis situations and compares its crisis management against its stated principles and policies. It is very important to schedule review meeting with the managers The Corporate Sustainability Monitoring can lead to a company's to move from one categorization to another in the time, depending with the frequency that it will be done, yearly, two time per years. To see how well it had performed is a constantly process. The following issues are identified and reviewed in the monitoring process:

The objective of Corporate Sustainability Monitoring is to verify a company's involvement and management of critical environmental, economic and social issues or crisis situations that can have a highly damaging effect on its reputation. In addition, the consistency of a company's behavior and management of crisis situations is reviewed in line with its stated principles and policies. The following issues are identified and reviewed in the monitoring process: The monitoring is on Commercial practices; e.g. tax fraud, money laundering, antitrust, balance sheet fraud, and corruption cases; Human rights abuses; e.g. cases involving discrimination,
forced resettlements, child labor and discrimination of indigenous people; Layoffs or workforce conflicts; e.g. extensive layoffs and strikes; Catastrophic events or accidents: e.g., fatalities, workplace safety issues, technical failures, ecological disasters and product recalls.

The monitoring could use sources as: The monitoring of DJSI members is based on media reviews using full text database services (e.g. Factiva) as well as the analysis of stakeholder information and publicly available information.

The evaluation in the monitoring should be periodically, daily to have critical information and issues. Also to determine good aspects but also critical situation, when a critical situation occurred, the analyst should assess external analysis and internal analysis within the company, geographically and in terms of media coverage is important to do. If the impact of the crisis on the reputation of the company and its core business is far reaching, covered worldwide in the media or is an important concern for the company, the monitoring moves.

Other aspect to monitoring is the Management of the company; the analysts verify the quality of a company's management. They assess how well the company informs the public, acknowledges responsibility, provides relief measures, involves relevant stakeholders and develops solutions.

7. Education and training

Education and training is a continuously review and educational plan tower to companies and stakeholders, -engagements with companies and their stakeholders creating spaces for discussion in the topic of sustainability-. This education should evolved the environmental NGOs, investors, labor unions and other public interest groups, and with experts that continuously training in to the key aspects of corporate sustainability.

Creation of groups, forum, spaces to discuses between rating agencies, companies and their stakeholders permit to enforce and clarified continually and development new creative ways to performance socially and responsible. According to Ceres 69: The Ceres stakeholder engagement model helps businesses work with a wide range of constituency groups to identify problems, set goals and targets, disclose their actions and develop solutions to sustainability issues”. The company development a model and under the Ceres model, each company or industry cluster is assigned a stakeholder team - a dedicated group of environmentalists,

69 Ceres, ethical rating agency with operation office in Boston.
investors, labor unions and other public interest groups - with whom the company holds regular dialogues in a private setting.

These dialogues serve as a medium for concerned groups to give candid and constructive feedback about a company's performance related to:

- Disclosure of its environmental, social, economic and governance performance as communicated in its CSR or sustainability report
- Key sustainability impacts, risks and opportunities,
- Strategies and targets for addressing sustainability challenges
- New sustainability initiatives and Project

In turn, participating stakeholders learn about the real business, cultural, political and technical challenges that a company faces in its journey towards improved environmental, economic and social performance and in that way training and education is a very important topic.

5.5.3 Some Ethical rating methodologies in the market in practices:

- Methodology from Innovest rating agency:

Innovest used Environmental and social performance measures are as indicators for management quality and long-term financial performance, not as commentaries on the intrinsic Ethical worth of the companies. The model is addressed to balance the level of environmentally and socially driven investment risk with the companies' managerial and financial capacity to manage that risk successfully and profitably into the future. There establishes some criteria for its analysis:

Environmental assessment criteria

1. The EcoValue’21TM Rating Model: Environmental

The EcoValue’21TM model is compounded by over 60 data points and performance metrics, which are grouped in six key value drivers, summarized schematically as follows: Those are focalized in 3 areas Management, risk and opportunities see the EcoValue 21 Rating Model. The strategic Management Capacity, are focus to issues as Corporate governance, social issues performance, stakeholders relation in other. The risk contemplates the Historical contingent
Liabilities, Financial risk management, Suitable risk and operating risk. The opportunity goes on the direction to sustainable profit opportunities

**Figure 5.4 EcoValue 21 Rating Model**

*The EcoValue*™* Rating Model:*

Source from Innovest rating agency methodology [http://www.innovestgroup.com/](http://www.innovestgroup.com/)

**Social assessment criteria:**

2. IVATM

Over 50 individual performance indicators are addressed in Innovest’s IVATM rating model, as outlined in the schematic below and grouped in 5 categorizations: Sustainable Governance: (Strategy), Emergent markets, products and services, stakeholders capital, human capital

Source from Innovest

**Figure 5.5 the IVA Rating Model**
The **IVA™** Rating Model:

- **Sustainable Governance**
  - Strategy
  - Strategic Capability
  - Traditional Governance

- **Emerging Markets**
  - Strategy
  - Human Rights
  - Oppressive Regimes

- **Stakeholder Capital**
  - Regulatory & Stakeholder Relations
  - Local Communities
  - Supply Chain

- **IVA™**

- **Human Capital**
  - Employee Motivation & Development
  - Labour Relations
  - Health & Safety

- **Products & Services**
  - Intellectual Capital
  - Product Safety

Source from Innovest rating agency methodology [http://www.innovestgroup.com/](http://www.innovestgroup.com/)

**Research process:**

The Innovest company rating methodology for both the EcoValue™21TM and IVATM, which form the Innovest Combo profiles can be summarized as follows:

1. **Sector Overview**
2. **Collection of Research Data**
   Identification of sector-specific risks and opportunities Sources: Annual / Env / Social Reports; Company press releases; Industry-specific news sources; Media searches – RBB, Bloomberg, Factiva; Gov’t & regulatory bodies; NGOs

3. **Interview with Company**
4. **Completion of Rating Model**
5. **Final Product** Final company ratings (AAA-CCC)

**Figure 5.6 Rating Methodology**

Source from Innovest
Sector Overview

For the evaluation of any individual company, Innovest research analysts conduct an in-depth assessment of the competitive dynamics of that industry sector, with particular emphasis on the special risks and opportunities created by environmental and social factors.

Data collections:

Innovest obtains information from the following sources:

• Corporate documents: annual reports, environmental and social reports, securities filings, 10k and other, websites, etc.

• Government data: U.S. Toxic Release Inventory, Comprehensive Environmental Response and Liability Information System (CERCLIS), RCRA Hazardous Waste Data Management System, etc. We are currently assessing the value of information contained on the newly launched Eper website, Europe's first industrial pollution register.

• Industry sources: specialized vertical trade publications and reports, eg. Chemical Week, The Oil Daily, Oil and Gas Journal, etc.

Strategic Valued Advisors

Research & Rating Methodology
• NGOs: interviews and dialogue with non-governmental organizations familiar with the companies’ operations and any controversy they may have caused, or could potentially cause.
• Innovest maintains collaborative relations with influential NGOs such as Environmental defense, Friends of the Earth, Greenpeace, and others. Some are even Innovest clients.
• On-line databases such as Factiva.

Companies Interviews:

We also use interactive, real-time interviews with company executives; we consider the resulting information much more complete and reliable than that provided by questionnaires.

Rating process:

Once the interview/data gathering process is completed, each company is rated relative to its industry competitors. Companies are rated against the Innovest performance criteria, and given a weighted score, as well as a letter grade (AAA, BB etc.). As noted above, each of the factors has an industry-specific weighting, based in part on a regression-based factor attribution analysis examining recent (5 year) stock market performance.

Final product:

The EcoValue‘21TM and IVATM investment risk ratings are ultimately expressed on a relative scale similar to those currently in use by conventional credit rating agencies such as Moody’s and Standard and Poors: It is important to note that judgments on company performance are not in any sense absolute; they are explicitly intended to be made relative to the standards and performance of the company’s industry peers.

Table 5.6 Rating Classifications

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>A company with minimal, well-identified environmental/social risks and liabilities, and with a strong ability to meet any losses which might materialize. Extremely well positioned to handle any foreseeable tightening of regulatory requirements, and strongly positioned strategically to capitalize on environmentally/socially-driven profit opportunities.</td>
</tr>
<tr>
<td>AA</td>
<td>A company with environmental/social risks and liabilities which have been well identified and provided for. This position is unlikely to be impaired by any foreseeable tightening of regulatory requirements. The company is well-positioned strategically to capitalize on environmentally/socially-driven profit opportunities.</td>
</tr>
</tbody>
</table>
A: A company with large but well-identified environmental/social risks and liabilities, and sufficient financial and managerial strength to absorb all but exceptional risks. Able, also, to finance any currently proposed regulatory requirements. Above-average positioning with respect to profit opportunities.

BBB: A company with strong managerial capability, but one where environmental/social risks and liabilities are a potential source of loss, though not on any material scale. Average level of positioning vis a vis profit opportunities.

BB: A company with good managerial capability, but one where environmental/social risks and liabilities are a potential source of material loss. Below-average level of strategic positioning.

B: A company whose environmental/social risks and liabilities create a strong likelihood of material losses in both profitability and competitive position. Significantly below average strategic positioning.

CCC: A company where there are significant doubts about management's ability to handle its environmental/social risks and liabilities, and where these are likely to create a serious loss. Well below-average ability to capitalize on environmentally/socially-driven profit opportunities.

- Rating ethics AEI, Institutional approach: 70

AEI regularly evaluate “ethical” ratings of listed companies based on set standards and principles and only according to the guidelines and values of the United Nations, the Organisation for Economic Cooperation and Development and the European Union.

The analysis of Ratings of listed companies is based on the analysis the official documentation published by the companies themselves or through publicly available documents, documents issued by the judicial authorities, investigations as well as governmental, UN, OECD and EU reports and other materials. Apart from exceptional cases, AEI Standard Ethics does not ask listed companies to provide information because it assumes that they regularly supply all the necessary information and data to their shareholders and the market to enable them to judge their business.

Overview

Basically, the institutional approach follows the recommendation of European Commission: the social responsibility is a contribution to the sustainable development, Bruxelles, 2,7.2002 – 347 that is reflected in the guideless line for multinationals development by OECD in the 1976, that manifest CSR as a voluntary behavior that is not standardized therefore should be consider the principles of UE, UN, and ODCE integrally.

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70 Institutional approach this ideas were taking from AEI rating presentation at the university of Trieste in 2006 by Gavazzoli Schettini.
Basically this approach is development to give a framework for Corporate Decisions. In it addressed to *international social standards*, make strategically *stronger the corporate governance* in the social issue and sustainable firm development and *reduce the complexity of creation* a lot of ethics only applicable in the short time scenarios at the national, regional, local, signals enterprises and the other parts that are contained in the stakeholders.

Graphically how it is expressed?

**Figure 5.7 General Institutional Approach**\(^{71}\) AEI rating agency.

Source used with the permission from AEI rating ethics

UN, EU, OECD develop Norms, laws, agreements that give a framework for CSR and corporate governance, they could be probably futures laws. These are related to related to social, environmental protections, corporate governance and control. These norms will apply at all levels National, Regional Local.

Management and Ownership and other stake holders (interested parts) are addressed to share rules, common objectives, ethics compass, and ethical code.

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\(^{71}\) Diagram from AEI rating agency.
Advantage of Institutional approach:
1. Probable alignments and guideless of futures rules
2. A clear framework for firms and stakeholders references
3. It is introduced international principles that are internationally strong and knowing.
4. There is a not ideological positions example it is alcohol beverage of from tobacco, army, preservative.
5. It is conduct normative and guidelines with clear directions

Critical points

1. Strong competence
2. Availability to modify corporate governance

When Warren Buffet were Salomon Brothers’ president in 1991 say to the staff meaning that “Lost money for the firm, I will be very understanding; lose a shred of reputation for the firm, I will be ruthless”

**Institutional approach of AEI**

This institutional approach is analyzed from (1) The institutional alignment, (2) The from their classification and (3) from the fundamental methodology:

1. The institutional indication (alignment)

The institutional alignment is in the UN, EU and Organization Guidelines for Economic Co-operation and Development (OECD) framework

**-Some of the United National (UN) alignment**

1. Universal declaration of human right 1948
2. Environmental and developmental Rio’s declaration 1992
3. ILO tripartite declaration of principle concerning multinational enterprise and social policy 2000
4. Global compact

**-OECD Organization**
The OECD Guidelines for multinational enterprises 1976
Corporate Governance principles (1999)-2004
The OECD Guidelines for SOE’s (2005)

-UN Principles Guidelines

Green book to divulgate the responsibility of firm (2001) 366 Communication: It is focus to modernize of right and law of the society and make stronger the firms governance with the EU guidelines addressing the companies development Com (2003) 284 def

Institutional Indication

- Vertical classification and Horizontal classification

The rating ethics used by AEI is classified in 3 areas and is modeled to evaluate 5 aspects that represent the ideal standards the rating ethics evaluate the measure of behavior of the firm and the ideals standards.

Vertical classification: Establish the priority of the on the indication (alignment) and the horizontal classification is the subdivision of arguments.

**Figure 5.8 Horizontal Classifications, AEI**

Source used with the permission from AEI rating ethics

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Diagram from AEI rating agency.

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72 Diagram from AEI rating agency.
Table 5.5 Horizontal Classifications characteristics, AEI

Source used with the permission from AEI rating ethics

<table>
<thead>
<tr>
<th>Market-Competitions</th>
<th>Ownership</th>
<th>Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>TARGET MARKET &amp; COMPETITION</td>
<td>OWNERSHIP AND CONFLICT OF INTERESTS</td>
<td>ADMINISTRATION &amp; CONFLICT OF INTERESTS</td>
</tr>
<tr>
<td>MARKET &amp; DOMINANT POSITION</td>
<td>MINORITY PARTNERS PROTECTION, ACCOUNTING</td>
<td>TRASPARECE &amp; INFORMAZION</td>
</tr>
<tr>
<td>TENDERING AND PUBLIC HELP</td>
<td>ADMINISTRATION AND MANagements</td>
<td>EMPLOYMENT &amp; HUMAN RESOURCE SELECTIONS</td>
</tr>
<tr>
<td>CORRUPTION</td>
<td>ASSAMBY PARTICIPANT COMUNICAZION &amp; INFORMAZION</td>
<td>HEALTH ENSURANCE, SAFE PLACE TO WORK &amp; SOCIALDIALOG</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ADAPTETION, TRASFORMATION</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ENVIROMENT CLAIM (COMPLEIN)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CONSUMERS &amp; QUALITY</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SCIENCE &amp; THECNOLOGY</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LOCAL COMUNITY</td>
</tr>
<tr>
<td></td>
<td></td>
<td>COMERTIAL PARNERS</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

AEI rating Analysis

The AEI rating analysis is based on the guidelines-indicator principles (vertical analysis) and the classification in the areas of Market-competition, ownership and administration-gestion (horizontal analysis).

The guidelines indicator principles are analyzed giving answer to the following question in each of the three areas:

- **Market-competition area**

Basically, this area makes reference to market target (reference market) and the competitors. In this area four arguments are evaluated: 1. Reference market & competition, 2. market and dominant position, 3. tendering and public help and corruption-

---

73 Diagram from AEI rating agency.
The evaluation of the arguments is throughout the formulation of some questions as the following,

1. Market References and Competition

- What is the percent of Corporate participation in the sector in which it is operating?
- How many and who are the competitors (or the operators) in the market or in the segmentation, if this superior to 10%?
- What is the percent of concentration for single operators are if it over 10 percent?
- What are the barriers (obstacles) in the operator market entries? It refers to the case of new companies entering to the market)
- Is there any regulated and controlled entity or organisms available to punish or decided and action in from of company behavior?
- Is there any authority or entity aloud to fix market referred prices also in the interaction with social responsible? In case of the supplier with details

2. Market and dominant positions:

The analysis is based on some questions will present some of them:

- Does the corporation have a dominant positions, monopoly, and oligopoly?
- What is the commercial, distribution, productions agreement that the society have with others corporation in the same sectors?
- What are the voluntary norms that the corporations have and where are establish.

3. Tendering public help and corruption

- What are the tendering in which the corporations are participated and having success and financial public support
- What is the corporate social policy tendering and what are the influence over financial statements and investment in this initiative?
- What and where are the Internals Norm of Vigilant of about and transparency professionalisms?

- Ownership
This aspects are analyzed through out of 5 points evaluating differences questions in the different arguments: 1. Social capital and stockholders, voluntary norms and framework, 3. Independency and Interest conflict, 4. Minority stock holders Protections and Administrator nomination and 5. Information Communication-divulgation and transparency.

1. Social Capital and stockholders
-What and how many are the types of stocks emitted and in circulating
-What are the obligations are right related with the different kind of obligations and debt
-What are ownership compositions?
-What are the agreements and information with the Labor Union?
-What the derivatives products e Financial instruments that corporations used, typology, diffusions, and characteristics and so on
-What is the capital in program extraordinary operations?

2. Voluntary Internet Norms that are the framework for the ownership

- What are voluntary intern norms (VIN) that are link with the regulation of the stocks (ethical code and conduct code?)
- What is the way to communicate the VIN principles to the shareholders about OECD, EU communication, religious aspects and so on?
-What are the VIN that are related to family, economical aspects, professional and social, administrators, control and checking area, employees, suppliers, consultant of the society (stakeholders) others interest of the corporation.
-Who is running and with who is responding the control entity (VIN) that make control over the owners and with which periodicity are they controlling.
- If the corporation do Who is in charge the make the control of the ownership in conform to UN,OCSE and EU guidelines.

3. Independency and Interest conflicts

-What are the main legal and juridical that makes governmental activity, legislatively, administration, control related with the market of reference of the firm.
-What of them are controlled by the owners over the market of reference?
-Who of the main associated have control participation in the same activity of the others similar markets or relevant participation on banking, financial o credit system.
- Who of the main associated have familiar, economical, professional link with others stockholders or interest groups, with managements, members of the control structure or employees, suppliers, consultant of the firm?

- What are the voluntary norms adopted by the firms’ administration to guarantee the independency relationship between stockholders in the managements of the firm.

4. Minority stock holders Protections and Administrator nomination

- What are the systems of representation of the small and minority stakeholders and
- What are the control entities over the stakeholders that have the possibility to establish directly relationship with the others and minority stockholders of meeting of stockholders.

- What are the voluntary norms adopted by owners of control to offers transparency and equality to minority stockholders and markets activities, including in the part of voting to the administrator list.

5. Information Communication-divulgation and transparency

- How is the report among owners and the others stakeholders? (I change the question, AEI in the initial definition of do not consider the ownership as other stakeholder).

- In which situation the ownership creates relationship and manifests it in a document to the stakeholders about firm’s strategy and to contribute to the strategy.

- In which moment the stockholders communicated to the market the criteria about administrative nominations, (voting), control norms and control entities and other thing to create transparency in the systems.

- What are the owner policy adopted to increase transparency in the information and the company competitors?

- **Administration**

The firm is evaluated in base of some aspects as: 1. Information about board of directors and administration groups 2. Internal norms that regulated by the administration. 3. Independency and interesting conflict, 4. Communication, information and transparency, 5. Participation and vote in the general assemble meeting

1. Information about board of directors and administration groups
- What are the boards of directors and administration group competences and responsibility and the power in the ejection of this responsibility?
- Who are the boards directors and administration group and profession and the analysis if are they ordinary of extraordinary.
- Who are the other members that participate in the meeting of the boards?
- Who select, propose and indicate the members of the board and the other directors which participated.
- What participants are indirect and what are direct and with these criteria is made the decisions.
- What are the labor union and others groups that make advice to the minorities group.
- What is the representing of the employees in the administration managers and what are the responsibilities and power.

2. Internals norm that regulated  the administration.

- What are voluntary intern norms (VIN) that regulated the board director of the stocks (ethical code and conduct code)
- What are the VIN that are related to family, economical aspects, professional and social, administrators, control and checking area, employees, suppliers, consultant of the administration board of directors.
- Who is running and with who is responding the control entity (VIN) that make control over the administrator and with which periodicity are they controlling.
- If the corporation do Who is in charge the make the control of the ownership in conform to UN,OCSE and EU guidelines.

3. Independency and Interest conflicts

- What are the main legal and juridical that makes governmental activity, legislatively, administration, control related with the market of reference of the firm.
- What of them are controlled by the administrator over the market of reference?
- Who of the main associated have control participation in the same activity of the others similar markets or relevant participation on banking, financial or crediticial system.
- Who of the main associated have familiar, economical, professional link with others stockholders or interest groups, with managements, members of the control structure or employees, suppliers, consultant of the firm?
- What are the voluntary norms adopted by the firms’ administration to guarantee the independency relationship between administrator in the managements of the firm.

4. Communication, Information and transparency

- How is the report among administrators. (I change the question, AEI in the initial definition of do not consider the ownership as other stakeholder).
- Does the public firms have a annual relation about policy of government according to the EC recommendation in the communication 284 del 2003?
- How is communicate the Internal control norms (VIN)
- In which moment the market and economical risk is update
- What are the stakeholder that have direct relationship with the administration, how is the relationship?
- How the communication with the labor union is registries

5. Participation and vote in the general assemble meeting

- What are the mechanism to increase the voting participation in the voting assembly
- What are the mechanisms that permit to the minority voters to have relevant information before the meeting?
- What are the internal control mechanisms in the voting procedure?

There are others criteria and questions about administration, human resource, health insurance, save place to work, environmental, local community and so on.

The final evaluations by AEI Standard Ethics on the level of conformity of companies and nations to the baseline ethical values are expressed with eight different Ratings: EEE; EEE-; EE+; EE; EE-; E+; E; E-. “EEE” stands for ‘above average’, “EE” for ‘average’ and “E” for ‘below average’.

Those nations and companies which do not comply with the values expressed by the United Nations do not receive ratings and are included amongst the “suspended” issuers.

The classification is emitted according with scores and they are categorized and the finale rating is assigned according with the diagram rating classification
Figure 5.9 AEI Rating Classifications

Source used with the permission from AEI rating ethics
Chapter 6

6. Generali Insurance Company group S.p.a a general presentation of the company and Ethical/CSR/sustainable analysis case of Study

In this chapter an analysis about the CSR/sustainability Generali Insurance group will be presented. How the Group presents and communicates its Sustainability –sustainable reports- General information of the Insurance sector- will be discussed.

6.1 Understanding the Insurance companies Business:

Insurance companies are company with big amount of sums of money to invest. It is important that they have ethical concerns investment and corporate social responsibility (CSR) policy covering their investments and their governance. Their performance depends in their strategies, human resources, policy, managers. Managers with ethical human values and principles are very important. Their principles need to be in the same directions to those principles of the company with high ethical standards.

In their operation: Insurance companies provide (sell and services) called insurance policies, which are legally in the framework of contracts. In the insurance contract, insurance companies promise to pay specified sums, when future events may have occurred, events such: death, or and automobile accident, heath problems, housing damage and so on. Insurance companies are also actively in providing retirement and investment products. (Modigliani F, Fabozzi, F, 1996) These insurance companies are risk takers. They accept or underwrite the risk; in return they received an insurance premium. This insurance premium is paid by the policyholder that is the owner of the policy.

In general the insurance companies take the risk from parties who wish to decrease risk by transferring it to those insurance companies. The parties that transfer the risk to the insurance companies pay a premium to insurance company. They policyholders are their customers. Those policyholders are stakeholders that are affected by the Insurance Company’s decisions. Moreover, the insurance company pays the insured when the insured event may have occurred.
Because insurance company collects the *premium initially* and *pays the claims later*, the *initial revenues are invested in a portfolio*. And *portfolio returns* and other important revenues return to the insurance companies. An Insurance company with ethical/CSR concerns will operate sustainable incorporating the CSR/Ethical in the sustainable strategy focus in the social, environmental and economical issues, generating ethical climate. That includes social responsible investments. Business organization performance is affected by their strategies in the market and in the not market environments, (Orlitzky, Schmidt, Rynes 2003)

6.1.1 Decisions Making in Insurance Companies

The main responsibility of the insurance company is deciding which application for insurance they should accept and which ones they should reject, and how invest the premium received. They must also determine how much to charge for the insurance if they accept the application. This decision making process is called the underwriting process. A policy in CSR which regulates the investment and the governance is important.

Moreover the decisions making process goes further when the insurance companies need to decide in which companies and which portfolio they should invest the premium that they received initially (in advance). If an insurance company has ethical responsible commitments in investments the tendency will focus to SRI, and the making process of decisions will be in the framework of ethical international principles. Because insurance companies collect *insurance premiums* initially and make payment later when the events occurred, insurance companies maintain the initial premium collected and invest portfolio, that generate a return. Thus the two source of incomes for insurance companies include the initial underwriting income (the insurance premium) and the invest income that occurred over time. Investment returns depend on the performance of the financial markets (Modigliani F, Fabozzi, F, 1996). It is important to considering the SRI in these financial markets. For that reason to consider the part for social responsible ethical investments is important.

Insurance company’s profits (ICP), thus, result from the differences between their insurance premium (IP) and investment return (IR) on the one hand, and their operating expenses (OE), and their insurance payment (IP) or benefits (B) on the other. (Modigliani F, Fabozzi, F, 1996)
Insurance company’s profit (ICP) = (insurance premium (IP) + investment return (IR)) – (operating expenses (OE), + insurance payment (IP)) + benefits (B)

Insurance payment = 0 if the insurance event has not occurred
Benefit = 0 if the insurance event has occurred

- General types of Insurance

There are many types of insurance products and services:

- Life insurance: In this kind of insurance the risk insured is against death. This insurance pays the beneficiaries of the life insurance policy in case of death of the insured.
- Health Insurance: The risk insurance is the cost of medical treatment for the insured. The insurance company pays the insured or the medical services all or a portion of the cost of medical treatment (doctors, hospitals and so on).
- Property and Casualty Insurance (P&C): The risk insurance by property or causality is the damage to various types of property, for example a (1) house and the content against risk as a fire, flood, theft. (2) Car, against collisions, theft and other damage.
- Liability insurance: The risk insurance in against to litigation, the risk of lawsuits against insured due to actions by the insured or other.
- Disability insurance: Disability insurance insures against the inability of an employed person to earn an income in his or her occupation.

6.1.2 Regulation of the insurance companies:

In the US the insurance companies, who stock is publicly, are regulated by Securities and Exchange Commission. Models rules and regulations are developed by National Association of Insurance Commissioners (NAIC) – A voluntary association of state insurance of Insurance Commissioners-, whose norms apply to insurance companies in all of stated of the US. Normally States use this regulation when they are writing they own regulations. Insurance companies may also be rated by the rating agency as Moody’s Investor Services, Standard & Poor, Best Company, Fitch and other).
The financial crisis is a lack of ethics. Many frauds and unethical decisions have been made. In the year 2008 according to LexisNexis data base, new regulation had been created in the US that avoids fraudulent issues. The year 2008 provides significant legislation for the life settlement industries. Moreover to protect customers it was created STOLIs in 2008. STOLIs were specifically defined and listed as a prohibited fraudulent life settlement act or activity. Concurrently, the Financial Industry Regulatory Authority adopted new suitability standards for variable annuities and the U.S. Securities and Exchange Commission pressed forward with federal regulation of equity-indexed annuities by voting 4-to-1 to adopt proposed rule 151A for application to annuities issued on or after January 12, 2011. Since the adoption of Washington’s Insurance Fair Conduct Act of 2007, two more states adopted legislation addressing insurer conduct during 2008”. (A. Levine, H Levine, 2009) 74

In the UK the Financial Services Authority (FSA)75 will eventually regulate the all financial services Industry. They assurance they manage their own financial issues according with the rules. There are also Generals Standards Insurance Counsel (GSIC)76 with oversee the conduct of Insurance Brokers. Insurance intermediaries are not obligated to register in FSA and GSIG.

In Italy the entity to control the is “Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (ISVAP)” 77 - Insurance supervisory authority (ISVAP)- There is a regulation: code of the Insurance: Legislative decree No 209 of September 2005 –Code of private Insurance78. There is a collaboration with the Consob, Covip, and with Banca d’Italia. In Italy according to the ISVAP the evolution of the sector in the 2007 has been presented and increased the acceleration to restructuration of the Insurance Market; The Insurance process of the fusion, portfolio transferring has been guarantied the stability of the sector. The relative premium to the portfolio is approximately 99 (milliard) millions of euros with a global go down globally of 7% in decrement. The negativity is due to the vita area (-11,4%) in big raised until 2005 and with damage of (+1,3) and the financial crisis of the US.

75 FSA, Financial service Authority http://www.fsa.gov.uk/
76 GSIC is an independent non statutory organization, The main proposal is to make sure that general insurance company are traded fairly http://www.columbusdirect.com/General-Insurance-Standards-Council.cfm
77 ISVAP http://www.isvap.it/isvap/imprese.jsp/HomePage.jsp
78 ISVAP To see more information to see Insurance code http://www.isvap.it/isvap/imprese.jsp/HomePage.jsp
In the UK it has been presented a development of 8%; and in France with decrement of 3% and with stability of Germany. The three countries had incident in the recollection of the vita in PIL equal to 11% the 7% is approximately 3% and the value for Italy is 4%. 79

Insurance companies are monitored by accountants/auditors, rating agency, governments regulators all of them monitor insurance companies.

6.1.4 Brief Information about Insurance Industrial sector

According to Research and Market Information data80 The European industrial sector is a multi-trillion Euromarkets, housing around 5,300 including global players like Generali Group Insurance, Allianz, and so on. The industry earned about premium incomes about 978 billions in 2005 and 94,58% or 925 billions came from 25 European markets. European insurance companies are preparing for implementation of Solvency II not later that 2010 which call for the harmonization of national solvency regulation and the promoting of granting stability and transparency in the financial systems. Proposals to reform existing regulation and implementing new ones are trying to set up and create a single insurance market in the US. In Europe commission is considering like a flood directive and implementation of common consolidate market taxes base. Macroeconomic stability in countries as CEE5 (Poland, Czech Republic, Hungary, Slovakia and Slovenia) is driving further expansion in the insurance sectors

Generali is the Italy’s largest insurance company and one of the largest in Europe. More 300 companies over 40 countries compound the Generali Group. About 100 core companies are involved primary in insurance – including life, accident, health, motor, reinsurance and so on-the others concentrate in financial services and real estate. Generali is noted for being a leading insurer of satellite and space mission, since 1964. In more earthbound realms, the company targets are individual and small to mid-sized businesses according to yahoo, finance yahoo.

Generali is in the 10 top of Insurance companies based on revenues.

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79 ISVAP statistics http://www.isvap.it/isvap_cms/docs/F26600/Considerazioni_conclusive.pdf
80 For more information Research and market information: http://www.researchandmarkets.com/search.asp?q=insurance%20sustainable%20sectors
### TABLE 6.1  Top ten global insurance companies by revenues, 2007 (1)

Source world ranking http://www.iii.org/international/rankings/

($ millions)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Revenues (2)</th>
<th>Country</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AXA</td>
<td>$162,762</td>
<td>France</td>
<td>Life/health</td>
</tr>
<tr>
<td>2</td>
<td>Allianz</td>
<td>140,618</td>
<td>Germany</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>3</td>
<td>Berkshire Hathaway</td>
<td>118,245</td>
<td>U.S.</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>4</td>
<td>Assicurazioni Generali</td>
<td>113,813</td>
<td>Italy</td>
<td>Life/health</td>
</tr>
<tr>
<td>5</td>
<td>American International Group (AIG) (3)</td>
<td>110,064</td>
<td>U.S.</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>6</td>
<td>Aviva</td>
<td>81,317</td>
<td>U.K.</td>
<td>Life/health</td>
</tr>
<tr>
<td>7</td>
<td>Prudential</td>
<td>66,358</td>
<td>U.K.</td>
<td>Life/health</td>
</tr>
<tr>
<td>8</td>
<td>Munich Re Group</td>
<td>64,774</td>
<td>Germany</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>9</td>
<td>Aegon</td>
<td>62,383</td>
<td>Netherlands</td>
<td>Life/health</td>
</tr>
<tr>
<td>10</td>
<td>State Farm Insurance Cos.</td>
<td>61,612</td>
<td>U.S.</td>
<td>Property/casualty</td>
</tr>
</tbody>
</table>

(1) Based on an analysis of companies in the Global Fortune 500. Includes stock and mutual companies.
(2) Revenues include premium and annuity income, investment income and capital gains or losses, but exclude deposits; includes consolidated subsidiaries, excludes excise taxes.
(3) In 2008 AIG ceded 79.9 percent of its ownership to the federal government in exchange for an $85 billion loan.
6.2 Generali Insurance Company Case Analysis:

The source for this information was taken from the sustainable report of Generali Insurance Group, website and information that is the result of several informal interviews carried out with Marina Donati\textsuperscript{81} and Manuela Bacci in the department of Corporate Social Responsibility, Suitable Report. The meeting started in May 2008 and finished on September 2008. Then via e-mail and by phone the communication were them was doing until February 2009. The purpose of the interviews war to discuss and clarified point of the sustainability compromise of Generali Insurance Company.

6.2.1 Overview of Generali Insurance Company\textsuperscript{82}

The Generali Group Insurance has its operations in five continents and in more than 40 countries. It was founded in Italy, in Trieste in 1832. Approximate the Group is compounded by 331 companies, including 148 insurance companies and 97 financial and real estate companies, with more than 67,000 employees and 46 millions customers around the world. With more than 66 billion Euros of business and 398 billion Euros of assets under management, it is ranked in the third position in Europe. The Group is listed on the Milan stock.

Generali Insurance Company has been showing through its history a sustainable commitment throughout its values, strategy, instruments as sustainable report code of ethics, governance of sustainability. Today, the company has a specific department for sustainability/Corporate Social Responsibility Department to coordinate the work of the two Committees, (1) draw up the Sustainability Report and organize the spreading and (2) implementation of environmental and sustainability policies, under directions of Marina Donati and her assistant Manuela.

\textsuperscript{81} The interview was conducted in Generali Insurance Company, others by phone and also exchanged of e-mails were taking place with her and with FTSE4Good index.

\textsuperscript{82} The trademark is represented in the winged lion, the emblem of Saint Mark the Evangelist, the patron of the City of Venice.
The whole organization is committed to CSR sustainable issues: from the managers (director and president) to employees: Chief Financial Officer, who oversees the **Sustainability Committee** – whose job is to define sustainability policies for the entire Group –, as well as the Eco-Committee, which is called to define environmental policies and performance indicators for monitoring. The **Sustainability Committee** decided that the theme for 2008 will be the reduction of electrical energy and paper consumption. A Group-wide marketing campaign was launched.

The sustainable/social responsible commitment is toward to the long term perspective: “The Group has always been committed to combining long-term sustainability of corporate economic growth with social sustainability. Social sustainability is, in fact, closely connected with the values that have always distinguished the Group, and also those values are integrated in company strategy and in that way are part of Generalli Insurance Group’s strategy identity” according to Antoine Bernhein the president of the Insurance company (Generali Group Sustainable report 2007). Identity: As we see in the first charter of Business and CSR identity is defined by the Mission. The Values, Communications structure –organigram- System of governance, Ethical Code, Internal control and risk management system. As it was defined in Chapter 1 all of this is supported in values that created an ethical climate shared by the people (employees) in corporation, those elements are supporting the organizational strategy.

- **Guide of Value of Generali Group Insurance**


The graphic indicates, as a circular visualization, that all of the values are interconnected with each other.

- **Mission of the Generali Group:**
The Generali Group (Sustainable report, 2008)

- is one of the leading insurance and financial Groups in the world
- has been characterized from the outset by a strong international outlook
- focuses on continental Europe and on markets with a strong potential for development
- Primarily serves individual clients and small and medium enterprises
- operates with a view to establishing itself as one of the leading operators on the global scene in the life and non-life direct insurance in terms of profitability.

**Group Organization**

**Figure 6.1 Generali Group Organizations**


**Systems of governance and company structure:**

Generali Company is managed by a Board, which is compounded by not less than 11 and not more than 21 members appointed by the Shareholders’ Meeting. The Articles of Association call for the members of the Board of Directors to possess professionalism, honorableness and independence as required by current regulations. Board Members stay in office for three financial years; their mandate ends on the date of the Shareholders’ Meeting for the approval of the Financial Statements related to the last financial year covered by their term of office and are eligible for re-appointment. The Board of Directors has 20 members: 4 Directors who, in
accordance with the Code, are considered to be Executive Directors and 16 non-Executive Directors (not vested with operating powers), 11 of whom are independent. The Board of Directors must periodically evaluate the quorum for independence, any failure to comply with the same results in withdrawal of the office.

**Financial performance**

6.2.2 History about Generali group Insurance company:

-In 1831 Generali Insurance Company was founded in the Austro-Hungarian Empire in TRIESTE. The company was growing fast and spread throughout Europe, employing an international approach.
- In 1832 The Head Office for Italy, was created in VENICE, (the City of the Doges). This was also the first time that a company operated in all branches of insurance, hence its name of "general insurance".
- In 1837, GENERALI was active in Germany, France and Poland.

Recently, it has become one of the leading foreign insurers in China and obtains a license from the Chinese authorities to develop its business, in partnership with a local company. In 2005, 3 years after launching its operations in China, the company Generali China Life has become the
leading foreign life insurance company in China. Other important issue is that in 1963 it was created assistance services with EUROP ASSISTANCE, the world leader in this sector.

6.2.3 Business ethics and sustainable/social responsibility of Generali Insurance group Spa.

It was already mentioned in Charter 1 (Business ethics and social responsibility) that the direction guide of any company is the principles, values. There are the frame work references in the decisions process making. In the following table it will be represented how the sustainable information has been formed. Generali is a company with high ethical/CSR/sustainable concerns: they have been manifested in their 4 sustainable reports and also have been indicated in the website. For instance some issues as:

- **Generali Insurance Group Sustainability:**

  Generali Group is one of the major insurance and financial companies in international environment. The Group has trying to put in the same direction the interests and expectations of a number of stakeholders: members of staff, shareholders and investors, clients, suppliers, issuing companies, institutions and local communities. “Although Society demands and expectations can be traced all over the globe, organizations are responding to this demands in a very of manners” (Golob. U, Bartlett J, 2007).

  During its history, the Group has been distinguished for its big attention to group of stakeholders as its employees, shareholders and the local community, based on its observance of a system of values such as professionalism, transparency and responsibility. Moreover, the Group has become environmentally active and established new bodies, instruments and managerial roles to ensure systematic social and environmental policies. This focus and concerns of Generali about its stakeholders could be put in the framework, of Generali will receive reciprocity, - the same interests can come from Generali’s stakeholders - “Presenting a reciprocal responsibility between business and society and of stake holders” (Freeman, 1984). Freeman (1984) suggests that there is a wide range or group in social environmental that an organization can affect, and this group has legitimacy claims on the organization due to concept on agency.
In recent years, Generali has been trying to unify and present all of this as an ethical/responsible sustainable commitment’s group through its Sustainable Report including other stakeholders, undertaking an ever greater commitment to sustainability in this report. “CSR reporting is a good way for organization to provide information for different stakeholders regarding social and environmental issue” (Golob. U, Bartlett J, 2007)

For instance, the Generali Group’s ethical code was approved in May 2004 by the Parent Company’s Board of Directors, setting out the fundamental principles and rules of conduct defining the Group’s relationships with stakeholders.

Moreover, other documents have been published in these coming days, building the principles set out by the Ethical Code and further developing the principles and rules of conduct defining the Group’s relationships with particular stakeholders, like staff and suppliers. In the pursuit of transparency, the Group has also established capital investment criteria and set out principles to guide its active participation in the favor of the community and the environment.

The following table describes important issues of Generali sustainability.
Source from Social Report of Generali for the year 2007 publishes in April 2008 that is part of the sustainable strategy of the group.

**Table 6.3 Sustainable information:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Publication of the Group’s Ethical Code</td>
</tr>
</tbody>
</table>
| 2005 | Publication of the first Sustainability Report  
|      | Publication of the Ethical Code for Relations with Suppliers  
|      | Setting up of the Eco-Committee |
| 2006 | Publication of the European Social Charter  
|      | Adoption of ethical criteria set out by Norwegian Government Pension Fund for investments in movable assets |
| 2007 | Adhesion to the UN Global Compact  
|      | Setting up of the Sustainability Committee |

- **Ethical code of conduct:**
The information about code of conduct base in principle (ethics) was taken from the code of ethics of Generali Group document. The code of ethics was approved by the board of director in Milan 2004 in May 11th. The group always has been persuading the objective of social commitment. The company has been creating an ethical model that was formalized and put in a deontological principle that is the head of the activities.

The group wants to establish relation with the counterparty’s entire base on the guidelines of principles contended in the code of conduct. The group has long term commitment that also, this ethical code proves support for the strategy and business operations.

The ethical code includes:

The information of code of conduct was taken from the Generali ethical code of conduct:

<table>
<thead>
<tr>
<th>Ethical Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Guidelines Principles</td>
<td>The Group works in compliance with current legislation, professional ethics and internal provisions. The pursuance of the Group’s interests shall never be a justification for a conduct violating the principles of correctness and honesty. For this very reason, any form of benefits or presents, both received and offered, shall be rejected if it is considered as an attempt to influence the independent judgment and conduct of the parties involved.</td>
</tr>
<tr>
<td><strong>1. Correctness and honesty</strong></td>
<td>When holding relations with all internal and external counterparts, the Group shall avoid any kind of discrimination based on age, racial and ethничal origins, nationality, political opinions, religious beliefs, gender, sexuality or health of its interlocutors.</td>
</tr>
</tbody>
</table>

In this document only the guidelines principles will be mentioned. For further information on guidelines governing the relation and the information on the norms describing the control systems to ensure ethical code visit the website 83:

3. Professionalism and growth of human resources

The Group shall guarantee an appropriate level of professionalism for the fulfillment of the tasks assigned to its employees. For that purpose, the Group is fully committed to the growth of its human resources, putting at their disposal suitable instruments for training, professional workshops and development.

4. Confidentiality

In compliance with the law, the Group shall guarantee confidentiality of the information at its disposal. Employees are forbidden to use confidential items of information for any purpose which is not related to the performance of their professional activities.

5. Conflicts of interest

When performing any type of activity, the Group shall manage to avoid any situation giving rise to real or even merely potential conflicts of interest. Examples of “conflicts of interest” include not only all the cases defined by the law, but also situations whereby an Employee acts to pursue an interest different from the interest of the company or of its shareholders in order to draw a personal benefit.

6. Free competition

The Group recognizes free competition in the market as a crucial factor for growth and constant business improvement.

7. Transparency and completeness of information

All information distributed by the Group shall be complete, transparent, comprehensible and accurate, thus allowing receivers to take decisions fully aware of the relations to be held with the Group itself.

8. Health protection

The physical and moral integrity of Employees is considered as a primary value of the Group. Working conditions shall respect individual dignity, be safe and healthy.

9. Environmental protection

The Group is committed to safeguarding the environment as a primary asset. For that purpose, the group shall make its decisions ensuring that economic initiatives are compatible with environmental requirements, not only in compliance with current legislation but also taking into account the latest developments of scientific research and best experiences recorded on the matter.

- The sustainable strategy of Generali Group:

Generali Group has been developing a strategy in its Business plan 2007-2009 approved by the board of directors in September 2007; it is a confirmation of the fundamental points characterizing the strategy for instance: Operating performance, growth an innovation, capital optimization.

The focus of the business plan is regarded to product innovation, ever grater efficient, and improvement to the quality product and services to the clients.

Generali’s sustainability strategy is focused on four issues: (1) following long-term sustainable growth; (2) valuing the people who work with the Group; (3) supporting the communities where the Group operates, supporting social relief, cultural and sports events; (4) limiting the direct and indirect environmental impact of Group activities.

In 2007, the Sustainability Committee was set up; a decision-making body, which has the objective of defining common sustainability strategies At Corporate Centre level. This group is
compound by representatives from all countries in which the Group has activities. This group is directly involved in implementing corporate social responsibility policies. The Chief Financial Officer is charged with responsibility for sustainability: overview the Sustainability Committee as well as the Eco-Committee, the decision-making body dealing with the Group’s environmental policies. The Corporate Social Responsibility Department is a body responsible for the coordination of the processes related to the Sustainability Report. This group publishes the document, organizes the dissemination and implementation of environmental policies and sustainability. This CSR department moreover is responsible for establish the dialogue and involve continuously stakeholders.

Going back to the issue of sustainability of Group Insurance group, Generali strategy is based on the firm belief that long-term economic growth reliant on business sustainability is fundamental to ethical principles in corporate strategies.

Since 2005 for the year 2004 Generali has been published the Group sustainable report until 2008 for the year 2007. The next sustainable report will be published in 2009. Those published have been approved by “Assicurazioni Generali’s” Board of Directors. In 2007, Generali adhered to the Global Compact international initiative promoted by the United Nations to support 10 universal principles in the areas of human rights, labor conditions, the environment and the fight against corruption. Furthermore, Assicurazioni Generali is listed on the ECPI Ethical Index Euro.

- The Global Added Value Concept

The Global Added Value (GAV) can be deduced from the reclassification of the consolidated financial statements which expresses the wealth generated by the Group’s operations over the year for the various stakeholder categories. The Global Added Value distributed by the Generali Group to stakeholders in 2007 exceeds 14 billion euro, up 14.8% on 2006.

84 To see more information about global Compact consult: [http://www.unglobalcompact.org/](http://www.unglobalcompact.org/)

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

(1) Human Rights: Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.

(2) Labour Standards: Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation. (3) Environment Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.

(4) Anti-Corruption Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
In 2007 the graphic shows that almost all data information has increased, the community item was the only one that decreased compared with the period data of 2006.

Taxes paid to the State increased considerably because 2006 had benefited from so called “realignment of tax real estate in Italy and the account of an especial tax credit in Germany. In this year the Generali Group did not receive significant financing form the government.

In 2007, the share distributed to parties out side the company rose, in addition to that due to the state, the share allocated to share holders (dividend) and providers of credit rose, the latter, because of the increase in interest rates as well as in operating financial debts.

The overall sum due to employees (staff members) continuing to sell the trend in the last few years, setting at around 57% due to especially reductions in the sum allocated to employees.

Generali Group Investment Policy

The Generali Group’s investment management policy has been consolidated solid and trustable, avoiding to be close of speculation and all high-risk investments, including those facing environmental and social risk. For Generali the Transparence in its investment is a remarkable principle. Generali Group has included the integration of ethical principles in the investment.
sustainable strategy. In October 2006, the Group decided to apply the ethical guidelines adopted by Norwegian Government Pension Fund – Global to investing.

Why Generali Group chooses this guidelines by Norwegian Government Pension Fund?: They were selected because, first at all, this Pension fund shares the same objectives of the Generali Group. Also, “the ethical guidelines adopted by the Fund are in line with the sustainability concept inherent in the Group’s investments” according to Marina Donati 85, she is the responsible of sustainable area of Generali. The Fund does not adopt criteria that may exclude the whole production sectors from investment on the basis of moral or environmental issues. Instead, the Group prefers choose its investments based on the behavior of each company. The Group has also established an Ethical Committee of experts - providing advice to the Italian Ministry of Finance, which is responsible for Fund management - as part of a procedure for exclusion or issuing companies from investment.

For those investments in portfolio that fall short of the above-mentioned criteria - especially following the exclusion of new companies - a period of time has been established for liquidating the positions after a public announcement of exclusion by Norway’s Minister of Finance. This period shall grant sufficient time to liquidate the investments without affecting portfolio value and in the interests of clients. Generali checks periodically the communications and when a communication of exclusion is manifested a confrontation to the information with company is presented. Through monitoring to what extent the ethical investment guidelines are adhered to in all countries, a quarterly report is sent to the Financial Risk Control Department within the Corporate Centre; if violation occurs, a verification process is activated followed by shared disinvestment plans to immediately restore compliance with guidelines. At end 2007, 22 million euros remained in unethical investments. The residual position is attributable mainly to investment in the company Vedanta Resources PLC, excluded from investment in November 2007.

In adopting this investment policy, the Group not only aims to avoid the risk of contributing indirectly to serious acts against humanity and/or the environment, but – as an institutional investor – it pursues the goal of inducing responsible behavior under a socio-environmental profile among issuing companies.

- Generali Group and Environmental compromise

85 Marina Donati was very gentile when she accepted to respond to some questions Durant a several interviews.
Protecting the environment as a primary asset is one of the Generali Group’s guiding values. As defined in its Ethical Code, the Group has made a commitment to direct its own decisions towards ensuring compatibility between economic and environmental factors.

To check the environmental impact of corporate business in the absence of certification to environmental standards such as ISO 14001, Generali set up a specific organizational structure. In this structure, a key role is played by the **Eco-Committee**, a decision-making body made up of representatives from the company’s main departments dealing with environmental impact management (Human Resources, Group Organisation, IT Services, Strategic Marketing, Purchase Department, Real Estate Division and the Corporate Social Responsibility Division) and directly accountable to the Chief Financial Officer, who is responsible for the Group’s environmental policy.

The Eco-Committee examines both **direct impact**, i.e. related to the performance of the Group's activities, and **indirect impact**, i.e. associated with purchasing, planning and supplying insurance products and with institutional investment operations.

**Figure 6.3 Direct and indirect impacts of the performance of the Group’s activities**


The Committee is also focus on define:

- Environmental policies
- Environmental performance indicator to be monitored
- Objectives linked to these indicators-Managements objectives in the directions to environmental performance
Benchmarked systems
Opportunities and risk derivate by climate changes

The organizational structure requires a contact person in the main countries in which the Group operates to foster the introduction and implementation of the Eco-Committee’s environmental policies at Group level.

Figure 6.4 Eco-Commitment


The Group promotes actions to educate and raise awareness of environmental themes, (There are graphically icons to be awareness of environmental themes, for instance (1) turned off a light when it is not necessary to use is a appropriate think to do, (2) always the right temperature, (3) do no wasted water, (4) separating wasted a part plastic cans, glass and other materials, (5) reuse paper and use the e-mail, (6) computers printer and saved electricity. These actions are targeted at members of staff - through a variety of programmers and initiatives -, as well as clients and the general public - through campaigns, dedicated conferences and guides containing useful advice and recommendations.

- Communication and stakeholders engagements

The Group has demonstrated its commitment with its communication instruments and forms of direct dialogue with all stakeholders. This communication, evolutions and dialogue is a
process of sustainable growing. The following table shows some of the instruments that Generali Insurance Company uses for the dialogue with its stakeholders:

**Table 6.4 Dialogue with several stakeholders’ categories**

<table>
<thead>
<tr>
<th>Forms of dialogue with various stakeholder categories</th>
<th>Direct stakeholders</th>
<th>Competitive stakeholders</th>
<th>Social and environmental stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employees</td>
<td>Sales force</td>
<td>Shareholders</td>
</tr>
<tr>
<td>Communicaton instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial statements, half-yearly report, quarterly reports</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Sustainability Report</td>
<td></td>
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<tr>
<td>Group website</td>
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<td></td>
<td></td>
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<tr>
<td>Websites of individual companies</td>
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<td></td>
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<tr>
<td>Company magazines</td>
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<td></td>
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<tr>
<td>Press releases</td>
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<td></td>
<td></td>
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<tr>
<td>Company Intranet</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FORMS OF DIRECT DIALOGUE</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Focus Group</td>
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<td></td>
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<tr>
<td>Roadshow</td>
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<td></td>
<td></td>
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<tr>
<td>Satisfaction survey</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multistakeholder meeting</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Generali Group and Community**

Over the past 175 years, the Generali Group has always promoted and established profitable and harmonious relations with local communities. Indeed, this has always been a top priority for Group companies. Traditionally, the Group's expansion and achievement have always been matched by the development of local economies in the countries where Generali is present and by the enhancement of competences at local level. Where its presence is already consolidated, the Generali Group has continued to be an important point of reference for local communities, especially with regard to public authorities and associations committed to alleviating the hardship and sufferings of those who need it. The Group has given priority to a number of areas of intervention - with particular emphasis on children and youth - which are:

- Scientific research especially medical research
- Alleviation hardship (as poverty) and suffering
- High profile cultural and artistic events
- Educational project and project to raise social awareness
- Initiative derives with the environment protections
- Sport events

These initiatives are based on the LBG London Benchmarked Group (LBG). By applying this model, Generali Insurance Group is committed to invest in the initiatives that could be increase the sales in the long term.

**Figure 6.5 Allocation to the community by type in 2007**


The diagram shows that the great majority of initiatives (and therefore the higher costs) shared the purpose of advertising, aimed in particular at improving Group image and strengthening company brand. This component is strongly connected with the business needs development and, differently from donations and community investments can be characterized by irregular trends over time. It may reach a peak when specific products are launched, or on the occasion of high-profile sports or cultural events, where the opportunity to increase reputation is seized. Conversely, the other two components are better representations of opportunities for long-term consolidation of the Group’s community involvement. The sum of donations and investments

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86 The LBG model is used in the world by hundreds of companies of all sizes and sectors to measure and communicate programmes benefiting the community. The model is based upon the reasons leading the company to support an initiative in favour of the community. Three main reasons have been identified: (1) a sense of moral and social responsibility, (2) the belief that companies long term interest in promoting the development of health society, (3) the knowledge invest in the community will result in direct benefit for company business. Community initiatives are divided in 3 categories based on this reasons: (1) Donation, (2) Investment in the community (3) Commercial initiatives
grew by 3.3%. Investments in particular rose due to gradual consolidation of the vast majority of the Group companies’ collaboration with bodies and associations.

- **Generali Group and Suppliers**

The Group deems the development of lasting and **mutually satisfactory relations** with qualified suppliers: a strategic objective and an opportunity for competitive success.

- **Generali group and Customers and consumers**

The Group considers clients to be its most important asset. It is endorsement from this stakeholder that allows it to consolidate and increase its market standings over time. Therefore, maximizing customer satisfaction is one of the Group’s top priorities it pursues through increasingly high standards in the quality of services and products it provides. The Group conducts several types of surveys to check the level of **satisfaction** in relation to Generali products and services and the **perception of the brand**, but also to get to know client/consumer **expectations** and the reasons behind their decisions.

The number of the Group’s insurance clients is estimated to be 46.3 million in 2007, the clear majority of whom are European. The overall number of clients in the Sustainability Report area is estimated to be about 39 million: 37.7 million insurance clients and 1.5 million bank clients. In accordance with Group strategy and the sales structure in major Group countries, the Group’s insurance business is focused on the retail and small business segment. Only 4% of its clients are medium/large businesses. At the end of 2007, the Group **portfolio** counted 89.8 million policies (+3.1% on 2006), 88.8% of which were in Europe.

**Figure 6.6 Clients portfolio**

- **Staff members**

Human resources are a key element of the Group’s strategic vision, which believes in the value of its collaborators and builds its competitive advantage on the commitment of each individual.

The number of workforce fell by 1.7%: Increasing in Italy +4.8% and in Switzerland +6% due part BSI’s acquisitions of Banca Unione di Credito. Falling in Germany (-8.5) and in Austria (-2.5) and in France (-2.3) linked to reorganizations process. Remaining stable in Spain

**Figure 6. 7 Staff members’ distributions**
• **Human resources policies**

The commitment to human capital is in official documents like the *Ethical Code* and the *European Social Charter* of the Generali Group, which defines the workers’ fundamental rights and the development targets set for the issues on the protection of human resources and of representation of the Group’s workers. The Group ensures fairness and impartiality in the **recruiting** and employment of staff. Remuneration and motivation policies aim to ensure equity and balance of pay levels in relation to positions and responsibility. The salary package includes a number of **benefits**: a fundamental element for members of staff to feel part of the organization.

Generali Group pays great attention to how its employees can combine work with family and personal life. It has developed several tools in this perspective, such as vertical and horizontal part-time work contracts and days or partial days off that can either be counted as paid time off or be made up at a later date.

• **Equal opportunities**

In line with this policy, examples of rules are given in Generali Group company contracts to ensure equal treatment between **men and women** in the process of selection, training, promotion and wages, often anticipating the implementation of European and national legislation.

6.2.5 **Sustainable reports**

In the sustainable report, Generali Group communicates its social responsibility: what it has been doing in the past year, what are plans and some compromises for the future, objectives and so on, in the CSR/sustainability issues. “CSR reporting is a key tool for communication with stakeholders about an organization’s CSR activities” (Golob. U, Bartlett J, 2007). Generali follows standards of GRI, *reporting Framework*, Sustainability Reporting Guidelines. In each suitable report, Generali communicates some objectives, and in the following report for the next year, an accounted –up date and information about the state - of these objectives is presented. Therefore, the reporting and disclosing of CSR by the companies is a very important part for the shareholders information to be communicated. “Communication of an organization’s social
impact is important, and disclosing true and relevant information about corporate behavior, can have benefits for stakeholders, organizations and society (Golob. U, Bartlett J, 2007).

- Sustainable report for the year 2007 published on 2008:

The 2007 Sustainability Report confirms and represents past CSR choices. For instance: The foremost the international perspective: the geographical area referred to in the Report accounts for 70.6% of staff members and 87.2% of total gross direct premiums within the Group. This area includes all countries of primary importance to Group strategy, namely Italy, Austria, France, Germany, Spain and Switzerland. Insurance or banking-related businesses are included, even service companies. The document also provides information on Group activities in countries characterized by a higher social and environmental risk, namely China, Colombia and India. The section dedicated to Social and Environmental stakeholders, in turn, contains information on worldwide initiatives launched and/or supported by the Generali Group. There are other three sections which provide a detailed description of major stakeholders, divided into three categories: direct, competitive and social/environmental, highlighting their specific relationship with the Company.

Structure of the sustainable report:

The sustainable report is organized in 3 sections and five parts: Before of that a letter of the chairman is included in the report. 1. The first sections describe the group’s identity and strategies. Identity: The identity is compound by:

- The mission:
- Guidelines values: Those were mentioned previously.
- Group organizations corporate center. (Organigrama structure)
- Systems of governance

2. The second section describes the Group’s economic and financial performance. In particular, it provides a calculation of the added value created by the Group and its distribution among the various stakeholders; and the point mentioned in the Generali Group sustainability aspects
3. The third sections provide information about the stakeholder: divided into three categories: direct, competitive and social/environmental, highlighting their specific relationship with the Company.

- **Sustainable Report Generali Group 2006**

In this year Generali celebrated its 175 anniversary. Generali group during all of this period has been demonstrating the ability to perceive trends and adapt to continual change in the on market and to become stronger due to the incorporation of the system of share value. Generali is showing that it not only has an economical objective; but also has social and environmental strong objectives, and these are expanded in order to meet the expectation of the stakeholders. The sustainable report has been used for spread and consolidates the guidelines and principle among companies, for developing policies toward to the stakeholders, and sharing common elements for the best practices. There is an important initiative: label ECO-commitments, that in 2006 it was implanted of asset management policies in accordance with the guidelines, Government Pension Funds in Norway.

The dialog was extended to a big number of stakeholders. Trough the dialogue the opinions and suggestion were identified, and oriented to concrete actions when need and expectation are necessary. Generali is responsible/sustainable committed, and it could be seen in adherent ion to the UN Global impact, an international initiative to support 10 universal principles in the areas of human rights, labor, environmental and anticorruption, that being universal principles, these were part in fact of the Group’s value and strategies. “By adhering to the UN global Compact Generali is publishing expressed its commitment to apply these principles in the company policy and every day operation, manifesting its concrete actions toward the environment and the community. This idea for them will be sustainable in the long period. New indicators have been developed to measure, the economical social and environmental. This initiative is developing and consolidating a Group Culture that provides a consolidation the culture in the whole group common values and principles into the corporation and this contributes also to transfer good practices from one group to another.

To implant and adopt this Corporation Responsibility is not only an issue of communicating; it has been served also to an opportunity to development, management systems and values.

- **Progress of Social Responsibility in the group:**
The first sustainable report was published in 2004 and is having been showing a lot of improvements; in 2004 the first issue was focused to the larges companies: Italy, Germany, France, and Spain focused on:

1. Relevance to core business: insurance and insurance related services.
2. Company side: Company side, a minimum of 250 employees was considered- the European commission referent point to identified large companies.
3. Location: Considering countries were the volume of business was primarily important for Generaly Strategy, Italy, France, Germany and Spain.

The second report in 2005 presented considerable improvement:

1. The Social Responsible Area: The area was extended to include Austria, Switzerland and Israel, data were presented for all group insurance company.
2. Contents: Many sections of the document were extended with more significant and relevant information, in particular the part regarding to the environmental in terms of quality and quantitative.
3. Layout: The purpose of easy reference: big Information quantitative data were put graphically and in tables with key references. More over a graphical map to illustrate the total document. Stakeholders were divided in 3 categories to illustrate their relationship: 1.direct stakeholders for example member of staff and shareholders. 2. Competitive stakeholders clients supplier and entities, and entities the group invest in. and 3. Social/environmental stakeholders encompassing the community and the Physical environment where they operate.
4. Time scale, created the quantitative information contained in the previous social responsibility SR report, provided benchmark for the first data analysis comparing accounting period.
Chapter 7

7. Are the share prices affected by public endorsements of economical environmental, social and performance?

In this chapter it will be analyzed if Ethical/CSR/sustainability affects the share price value of Generali Insurance Company in the (short term). For that investigation an event study method in efficient markets and the model market will be used. Moreover, the S&Pmib historical data are supporting the study.

7.1 Overview

It was mentioned in the previous chapters that Ethical/CSR/sustainable, the integrations of the 3 concepts is a fundamental part of business operations. This integration is the social responsibility of the corporation in sustainable finance. However this Ethical/CSR/sustainable is a term that is related to voluntary behavior that goes beyond of the law and the satisfactions of social expectation. CSR has strategic dimension of voluntarism which refers firms participate in social actions beyond that demanded by the law (Allen D, B & Husted B, W 2007). First at all, the law is a reference point of behavior; corporations should go further than requirements of the law in their CSR initiative, they need to be innovative. Second at all, corporations are going to meet and satisfy the stakeholders’ expectations. In the Ethical/CSR/sustainable perspective the real corporate social responsibility real-(CSR), businesses establish their identity, which is compound by corporate moral, values, principles shared by employees (ethical climate). With the values other elements are part of the identity, -mission, and corporate governance given to them a particular CSR identity that is perceived by theirs stakeholders-. As a result of this identity, corporations are focusing in values-principles business defined their sustainable strategy taking in account of 3 aspects: economical environmental, social as well. Generali Insurance Company is a model company with high ethical, CSR, and sustainable standards that meets the appropriate integration of those 3 elements. It is indicated in its sustainable reports.

Companies as Generali Insurance Company, with those kinds of sustainable concerns, considering stakeholder’s expectations are maximizing corporate social wealth and society. In the recently years “Social expectation about the responsible role of business in society are
increasing” (Golob, U, Bartlett, L, 2007). They have a big responsibility with the society. “Firms are being asked to provide more and more social programs designed to alleviate the world’s ills as they are told that this will also lead to superior firm financial performance” (Allen D, B & Husted B, W 2007).

When companies have a compromise to satisfy social expectations, stakeholders expectations, – do actions for the society, contributions with education, to help illiteracy in developed countries but more in developing countries, help entrepreneurial to start their business with investments, development products and technology and bring that with the facilities to everybody to make equality standards of life, investing in micro-credits, helping with the poverty reductions in sustainable way and so- companies are creating value, they are creating social value. (Sholtens B, 2008) points out that (McWillians and Seigel, 2001) argue that firms invest in social activities because they want to satisfy the demands of the stakeholders. Then, the economical value converts in the long time with social value.

The economical and social value converts in the long time because companies increase the reputation (legitimacy) helping communities and helping their own corporation. Moreover, it is reflected in firms’ value. It occurs mainly in the long way, -in the long run-. It could be because the company reputation (CSR identity reputation) is increasing and perceiving by investors, customers, employees communities and the other stakeholders. Moreover the costs of demand are reducing and financial performance increase. “The stakeholders view holds satisfaction stakeholders interests will results in financial and economical performance” (Freedman, 1984). In the long term there is generation of financial value. “Some CSR studies argue that firms investing in CSR create shareholder value in the long run although stock markets undervalue CSR in the short run” (Renneboog, L., Horst J.T., Zhang, C, 2008).

According to Renneboog CSR increments the share value in the long term, business become more sustainable and this CSR is undervalue in stock market in the short term. Why, in the short term, is the share price under valuable? By definition in the semi-strong efficient and in strong efficient markets the public information is reflected in the share prices. “Investor expectation is translated into the security prices” (Fuller, J, R, Farrell, L J, 1987)

From the point of social investors, there are a lot of people who prefer to invest in companies with CSR concerns, even if their profits are less. “SRI investors are willing to accept suboptimal financial performance to pursuit ethical or social objectives”. (Renneboog, L., Horst J.T.,
CSR/SRI gives an industrial competitive advantage and is attractiveness for individual and institutional investors. Those investors invest in Social Responsible Investment. Socially responsible investments (SRI) called ethical investments, or sustainable investments, which have grown rapidly around the world, and it is a process that integrates social, environmental and ethical consideration into ethical decisions making (Renneboog, L., Horst J.T., Zhang, C., 2008).

SRI investors could use public information about CSR Company’s commitment, which is available in news, sustainable reports, ethical rating information, sustainable indexes (FTSE4Good index) and so on. This information and SRI investors’ making decisions and other information could be reflected in the share price of the company. Information about company’s principles and values, ethical code, company identity, strategy, stakeholder’s relationship, SRI policy, what companies are doing to improve society in which they operate; information about companies adopting international principles from the UN, EU and OECD, adopting, human right standards, environmental policy, poverty reduction, and so on; this information is public and available in company’s websites and is available information in sustainable reports.

Some of these reports follow the guidelines in reporting for Global reporting Initiatives (GRI) initiatives. Information about sustainable index is public information also available for investor, companies that have some CSR sustainable standards which are included in those indexes. They are monitored by agency rating, an example of international sustainable indexes (chapter 3) as FTSE4Good Index.

For companies to be part of that index FTSE4Good Index, they need to set up some standards such as economical, environmental and social. They need to communicate through sustainable reports and disclorser their sustainable behavior. Showing what they are doing in order to meet the social expectation of the stakeholders, and even shareholders and community, in which operate. Guarantying that they not only are following the law but they are going also go further of it, being very creative in the CSR/RSI initiative.

In other words, they need to disclose, their sustainable- economical, social environmental-, operation: sustainable performance in the space between the law and social expectation of the all stakeholders. “The stakeholders view holds that satisfying stakeholders’ interests will result in an improvement of the firm’s financial and economic performance “(Sholtens B, 2008), he corroborates the idea of Freeman, (Freeman 1984). Scholtens mentioned that (MCWilliams and
Siegel, 2001) argued that firms invest in social activities because they want to satisfy the demands of their stakeholders (Sholtens B, 2008). Moreover, companies need to work hard to continuously measuring, maintaining and creating new way to be CSR, it generates long term value and short term value, share price value.

7.2 The connections between CSR and Financial Performance:

There are several studies that investigate the connection between financial and social performance, for instance Sholtens mentioned Allouche, Laroche and connections between social and financial Ortitzky, Schmidt and Rynes also mentioned by Sholtens. (Sholtens B, 2008) “There are different opinions about the interaction between financial and social performance and the empirical research has not arrived at the consensus” (Sholtens B, 2008). According to Scholtens “The connections between social and financial performance play and important role in the analysis of social responsible investments (SRI) “ (Sholtens B, 2008), from the perspective of portfolio, SRI eliminates securities from the universe of investable assets. There is a screening, investor followed different strategy of investments (see chapter 3) and firms are considered not appropriate for investments. Sholtens points out that (Bauer, Koedijk and Otten, 2005) find that the risk and return attribute to this SRI portfolio do not significant differ from their conventional counterpart (conventional founds) and the cost of SRI depends of the perspective of social responsible investors. Investors with ethical concerns will be investing in firms that have concerns of economical, social, ethical and environmental –sustainable- performance and initiative.

According to Manuela Weber, the relationship CSR and financial performance has been investigated in theoretical and empirical studies. Empirical research can be divided into qualitative and quantitative research. Empirical research on CSR and financial performance could be categorized in (1) quantitative and (2) qualitative researches.

(1) Qualitative research is related to the use of case of study or best practices to analyze the relationship between CSR and competitiveness: For example to investigate the influence of CSR in industrial business competitiveness and how it can help to improve a society helping communities and Adding value for the corporation. There is a deep case elaborate by (Senge, Dow,Neath, 2006): learning together see chapter two in the part of business operating in third world country. It is a case of wealth adds value creation for corporation and for communities:
poverty reduction and creation of positives company benefits. This case was mentioned in charter one, business ethics and CSR

(2) Quantitative empirical research is a research based on dating analyzing using data bases of data collection. For this categorization there 3 methods (Salzmann, 2008), (Walner, 2001):

Moreover Manuela Weber mentioned that there are 3 main methods used in quantitative empirical research that provide valuable information about CSR benefits. (1) Portfolio studies comparing: portfolio of environmental and social proactive and reactive companies -, (2) Events studies investigating markets responses after CSR- related events (3) multiple regression studies. (Weber, M., 2008).

7. 3 Scope of this chapter

The objective of this chapter is to analyze empirically using quantitative and qualitative analysis approaches in order to see if the corporate social financial performance is affected by sustainable/CSR/ethics performance. The question leading this study is if CSR has an effect on share price value? In other words if the share prices that reflect firms’ financial performance is affected by public information of environmental, social and economical performance? In order to measure the effects of CSR on share price, it is conducted an event study, which measures change in share prices based on the announcement of events. Particularly, it will be measured the effect of CSR’s events of the Generali Group Insurance group in its share prices. “Event studies are useful method for assessing the financial impact of new information on a firm’s share price”, (Currant M, Moran, D, 2006)

For this analysis, the methodology of events study is supported on the notion of market efficiency, semi-strong form of efficient market. For the semi-strong form of market efficient, any new information will quickly affect the share price of affect firms (Mackinlay, 1997), not only past information but also public information included news. In semi-strong the currently share price reflects not only the past prices but also the other information that is available to the public such as balance sheet, communication of profits and dividends, news related to the society – news about acquisitions, diversification, development of news products, or markets and so on- (Fanni, 2000).
The methodology of event study is used to examine the relationship between positive and negative announcements and changes in share prices or daily returns, using the concept of abnormal returns. Several events on corporate social responsibility (CSR) of the company of Generali Insurance Company will be analyzed. Information of events as inclusion and deletions from the FTSE4good sustainability UK Index is used as a proxy measure. Others CSR events that manifest CSR responsibility such: The Generali Group Ethical code was published, The Ethical Code was adopted by 41 Italy and 19 companies abroad, and Exclusion to the FTSE4Good Index, The first Group sustainable report was published, for the year 2004. Second Group sustainable report was published of the year 2005 and so on. This study uses data form the Bloomberg data base and yahoo, and for the information about news in CSR and other LexisNexis data base, I SOLE 24 ORE

7.3.1 Efficient Market

It was mentioned that the methodology of this study is supported in the notions of efficient market. Because the market is the environment in which the shares are priced. In this environment –efficient market- the investor expectation is translated into the security prices. It is said that the priced of share in efficient market incorporate all of information. . Efficient Market is discussed with in framework presented by Fama’s 1970 Survey. Fama defined an efficient Market in term of a “fair game” where security price reflects the fully information available. In the efficient market security price is given to provide a normal return for their level of risk” (Fuller, J ,R, Farrell, L ,J, 1987)

One of the appropriate definitions of the efficient market is that proposed by James Tobin, he affirms that an efficient market is efficient if in media it is impossible to earn from the exchange base from the public available information” (Fanni, 2000). The market discounts every thing, an efficient market should present a situation of equilibrium, or al least the disequilibrium could be temporal (Fanni, 2000).

In a efficient market all of the stocks are correctly price, investors will earn return of their investment which is appropriate with the for the level of risk assumed (normal returns), regarded with the securities they purchase, in other words, there are not over or under priced securities. In efficient market is difficult to get abnormal returns (Fuller, J, R, Farrell, L, J, 1987)

The analyst, who evaluates the market (efficient market), needs to be continually well informed, for the investors the marginal value of their analysis is zero in a perfectly effected market. Fama suggests that the efficient market hypothesis is divided in three categories (EMH): The weak form, the semi strong form and the strong form. The distinction between week, semi strong and strong is determined by the level of information being considered.

- **Week form EMH**:

  In this form of the efficient market the type of the information that is incorporated in the prices is related to historical data. In weak form of efficiency market, the prices reflects all of past information (Fanni, 2000)

- **Semi strong- Form EMH**

  The price is adjusted rapidly to public information and historical data. In that way information of the price reflects not only the past data but also the information as earning reports, dividend announcements, annual and quarterly report and new items in the financial press.

- **Strong Form EMH**

  Strong form of efficient market represents the idea that all information in the prices available is incorporated in share price, including historical, public private information. In this study it is important to remark that the semi strong- form of efficient market is very important, considering if public information is reflected in the share price, one of the first studies to examine the semi stronger form EMH was performed by Fama, Fisher, Jensen and Roll (FFJR), the method used was to computerized abnormal returns based on the market model, to estimate a normal return. Security returns were regressed again the returns for an index constructed from all stock listed on the New York Exchange and then estimating abnormal returns (Fuller, J ,R, Farrell, L ,J, 1987):

7.3.2 Events studies
Fama’s work introduced in 1969 the event study methods that are still used today (Curran M, Moran, D, 2006). Interesting event studies in economics and finance have been developed by MacKinlay in 1997 and for (Curran M, Moran, D, 2006). Mackinay remarks that “that perhaps the most successful application of event studies has been in the area of corporate finance. Important examples included the wealth effects of merger and acquisitions, and the price effects on financial decisions by firms, studies of these events normally focus on Abnormal return about the date of the first announce” (MacKinlay, 1997).

Moreover, a number of robust studies results have been developed from event studies of financing decisions by corporations, for instance when corporations announced that it will raise capital in external markets there is on average negative abnormal returns, (MacKinlay, 1997). And a lot of thing has been learned from the body of research based on the use of event study methodology. In generally event studies have shown that, as would be expected in rational marketplace, prices do respond to new information and in the future it is expected that event studies will continue to be a valuable and widely used tool in economics and finance (MacKinlay, 1997).

In the field of finance and Corporate Social Responsibility (CSR) one study conducted by Curran and Moran examines if corporate performance is affected by public endowments of environmental and social performance. The result shows a trend toward positive and negative announcements having the expected effects on daily returns. But he concluded that those movements are not significant and the data do not suggest that a firm’s presence on the index bring it any significant financial returns for signaling its corporate social responsibility, (Currant M, Moran, D, 2006)

- **Events study concept**

Studies events are focused on the **abnormal share returns** around the date of the announcement (Mackilay 1997). “Events studies are often used to show the effect of news or events on share price. Studies attempt to reflect how the market and investors react to good news and bad news about specific companies” (Currant M, Moran, D, 2006). Company share price goes down when it is bad news and increasing when there are good news in the press. The phenomena will stay for several days depending of the impact of the event. There is not longer effect of the story unless it is really bad news for example Company going to liquidation of bankruptcy. (Currant M, Moran, D, 2006)
Abnormal returns reflect the stock market reaction to the arrival of new information. The abnormal returns represent earned by the firm after they have been adjusted for the “normal returns”. The rate of return is adjusted by subtracting the expected return from the actual return.

Rate of return= Actual return- expected return (normal returns)

The share of return/actual return was calculated using: \( R_{jt} = \frac{(P_{jt} – P_{jt-1})}{P_{jt-1}} \)
Where \( R_{jt} \) is the share return and \( P_{jt} \) is the share price for day \( t \) and \( P_{jt-1} \) is the share price for the previous day.

The abnormal returns (AR) or unexpected returns of residual) were calculate for the event windows according to the formula

\[ AR_{jt} = R_{jt} – E(R_{jt}) \]

AR = unexpected return for day t and \( E(R_{jt}) \) is the expected share return for day \( t \). The abnormal return is the normal return menus expected return. The unexpected return are the normal return menus the expected return.

\[ AR/abnormal return/Unexpected return= Actual return (R_{jt}) - Expected return/normal return E(R_{jt}) \]

If there are differences are abnormal returns or called also unexpected returns.

Normal returns/expected returns, \( E(R_{jt}) \) are calculation using the model market equation.

\[ E(R_{jt})= \alpha_j + B_j R_{mt} * E_{jt} \]

\[ E (R_{jt}) = \alpha_j + B_j R_{mt} + E_{jt} \]

Where \( R_{mt} \) was the return on a market index /S&Pmib for day \( t \), \( B \) measure the sensibility if a firm to the market risk., \( \alpha \), measure the mean return over the period not explained by the market, and \( E \) was a statistical error term \( \sum(E)= 0 \)
Actual returns are calculated by the difference between last price and initial price divided the initial price. Any significance difference is considered to be an abnormal or excess return.

*The standardized abnormal return can be accumulated for a number of days (the events windows) to derive a measure of the cumulative abnormal return for the firm. This is assumed to measure the average effect of the event on the value of n firms.*

The significant of the abnormal return allows the research to infer that the event had a significant impact on the values of the firm (McWiliams and Siegel, 1997).

The conclusions from an event study are valid only if the researcher has truly identified the abnormal return associated with the event and precisely identified the date of the event.

The significant of the event of inference relies on the assumption that

1. Market is efficient  
2. The event was unanticipated  
3. There are not confounding events during the event windows  

7.3.3 Market Model

The Market Model or the name of diagonal model was developed in W.F Sharpe, “a Simple Model Portfolio analysis”\(^8\). The Market effect is the relation between the individual securities and the return on market portfolio (see following graphic of hypothetical regression). There is a sensitive change between the market and each stock and this change is measure by the beta, B. according to the CAPM and fuller and Farrel. There are several variables that could influence the price of stocks, resulting in a Market effects for instance economy variable, public information and so on.

**Graphic** A *hypothetical regression* (characteristic)  
Source from  Furrel, Farrel, 1987

\(^8\) Management science (January 1963 pp 277-293
The diagonal line in the figure represents the line of the best fit between the actual observation of securities returns and market returns, with depended variable $R_{jt}$ (return j for stock j during the period t) and in depended variable $R_{mt}$ return on the market in a time t.

Relationship with the between the return for a particular stocks securities is expressed:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + E_{jt}$$

This equation shows that the return $R_{jt}$ for the stock j during the period t is a function of the return of the market index $R_{mt}$ during the same time period. This relationship is a linear function.

The market model is a linear relation with independent variable $R_{mt}$ and one dependent variable $R_{it}$, and it is simple linear relation. The term $\alpha_j$ can be interpreted the average return in on the $jt$ security when the market index return is zero=0. The term $E_{jt}$ is a random error with value zero=0 it is assumed to be uncorrelated with the market return. With a $\beta_j$ that is the slope of the graphic the measure systematic risk expressed by correlation $jm$ divided by variance of the market. After the diversification of the portfolio the risk that is not diversified is the systematic risk.
To understand the Market Model according to (Furrel, Farrel, 1987) it is important to made two assumptions:
1. Individual securities are related to each other only through a common relationship with some basic underlying factor that is the market index.
2. Each security’s relationship with the market is linear.

7.3.4 The Beta

Beta (Bj) is a measure of relative market systematic, the systematic risk. The term Bj= Beta coefficient, it is the slope of the regression line, it is calculated:

- \( B_j = \frac{\text{COV}_{jm}}{\text{VAR}_m} \)
- \( \text{COV}_{jm} = \text{Covariance of } R_j \text{ with } R_m \text{ divided by } \)
- \( \text{VAR}_m \) the variance of \( R_m \): (The risk after the diversification). It indicates the measure in which the securities return changes systematically with changes in the market return.

The Beta of the market is \( B_m=1 \) Because the covariance of a variable of his itself is variable’s variance = Deviation standard^2 = des^2.

- That is \( \text{COV}_{jj} = \text{VAR}_j \) then \( \text{COV}_{mm}/(\text{Des})^2 \)
- then \( \text{VAR}_m^2/(\text{des})^2 = 1 \)

Using the beta as benchmark index it is possible classified the risk: a stock with the \( B_j>1 \) has volatile returns of the market index. A \( B_j < 1 \) means return less volatile that the market index.

- Estimating Betas:

\textit{A. Historical betas}

Betas are calculated using ex post data using the covariance concept between the stock j and the market.

\[ \text{(Cov)jm} = \frac{1}{(n-1)} \sum (Rjt-Rj)(Rmt-Rm) \]
\[ B_j = \frac{\text{COV}_{jm}}{\text{VAR}_m} = \frac{\text{COV}_{jm}}{(\text{Des})^2} \]
Other way to express the covariance is \( \text{Cov}_{jm} = \frac{p_{jm} \text{(Des)}_j \text{(Des)}_m}{p} \) where \( p \) = coefficient of correlation a number between 1 and -1 .

\( B_{jm} = \frac{p_{jm}}{\left(\frac{\text{(Des)}_j}{\text{(Des)}_m}\right)} \)

Beta is equal to the correlation coefficient for security j and the market index.

**B. Ex Ante Beta:**

Ex ante betas or estimated beta can be estimated from explicit probability distribution, which could be based in different state for different economic scenarios.

The ex ante covariance is calculated:

\( \text{(Cov)}_{jm} = \text{Sum} \left( Rjt - \text{E}(Rj) \right) \left( Rmt - \text{E}(Rm) \right) \)

In this research the Beta is calculated:

\( \text{COV}_{jm}/(\text{Des})^2 \)

**C. Adjusted Betas**

These betas are adjusted according to different economical factors with regression analysis.

- **Test of the Semi-strong form EMH**

One of the first example of semi strong-form EMH (that argue that all public information is fully reflected in the price of security prices) was performance by Fama, fisher, Jensen and Roll (FFJR)\(^89\) (Residual Analysis and Event studies.

- **Residual Analysis and Event Studies:**

Fama, Fisher, Jensen and Roll (FFJR) who analyzed the effect of stock splits on share prices, in the semi-strong-form EMH.

This particular analysis was very important because (Furrel, Farrel, 1987):

1. Provides some evidence of the efficient markets
2. It explores the question of whether stock splits increase shareholder wealth

3. FFJR development a research methodology for testing market efficient which has been widely used by others

The method used was to compute abnormal returns/unexpected returns based on the market model to estimate normal returns/expect returns Rjt, security returns were regressed against the returns for an index constructed from all stocks of the New York Stock Exchange (NYSE) using the equation of the Market Model:

Expected return: \( \text{E} (R_{jt}) = \alpha_j + B_j R_{mt} + E_{jt} \)

Where \( R_{mt} \) was the return on a market index /S&Pmib for day \( t \), \( B \) measure the sensitivity if a firm to the market risk., \( \alpha \), measure the mean return over the period not explained by the market, and \( E \) was a statistical error term \( \sum(E) = 0 \)

And abnormal returns= \( E_{jt} = R_{jt} - (\alpha_j + B_j R_{mt} + E_{jt}) \)

7.4 Methodology of the study:

A similar methodology used in a study conducted by (Curran, Moran, 2006) was used to this study. Curran and Moran examines if corporate performance is affected by public information of environmental, social performance. They used event study methodology, using inclusion and deletion from the FTSE4Good UK Index as a proxy measures for good or poor corporate social responsibility of the firm. In this particular event of CSR, Generali Insurance Group was included.

Abnormal and expected returns are calculated daily returns associated with an event. Their result shows that there is a trend toward to positive and negative announcements having expected effects on daily return. But this movement is not significant and the data do not suggest that a firm’s presence on the index give any significance return that are attribute to its corporate social responsibility. The first asset to conduct this research was to define event and to identify the period in which the share price of the firm will be analyzed: called the event window

In general the methodology was the definition of the events and the windows events that means to identify the period over which the price share will be analyzed. Calculation of the share returns, (the difference between last price form the beginning of the price, this result divided by
initial price in the historical data). Then the calculation of the abnormal returns was made. This is explained further in details in the sections of the method.

7.4.1 FTSE4Good Index and Sustainable report useful information in the methodology

This study uses information from the Financial Times Stock Exchange (FTSE). As we see in chapters 4, and 5, there is a sustainable index FTSE4Good Index. The information of inclusion and exclusion of the Generali Insurance Company in the index is used. This index for social responsible was established in 2001. The data of this index are provided by (EIRIS) rating agency who conducts companies screening as it was seen in chapter 5. They collected information on the top 50 UK publicly quoted from companies report, surveys and other public source, and from these data the composition of the index is defined.

For inclusion in the Index as it was mentioned in chapters 5 the companies need to satisfy some criteria of environmental, social, for example corporate governance, that are related to stakeholder. The index does not consider some companies which businesses are related to tobacco, nuclear weapons, whole weapons systems, nuclear power and the extraction of uranium. In the index companies are classified according to the environmental impact, low, medium, or high risk: For instance: High impact companies: oil, gas, agriculture, air transport. Generali Insurance Group and the insurance sector are classified in medium risk.

In the FTSE4Good index, the companies are from FTSE who are SCR eligible the companies are selected from the FTSE index and are included in the sustainable index. The companies by market capitalization – It is a calculation by the number of share outstanding multiplied by price per share- (50 companies). Every six months, companies are reviewed according to their capitalizations; social and environmental performance can be a factor of included or deleted of the index. An inclusion of a company in the index indicates that this company had been performance according to CSR standards. This company has been meeting high standards of social and environmental issues. If this company was selected from the general FTSE index and putting in the FTSE4Good it means that the company is meeting economical, social and environmental issues.

The inclusion on the Index increases reputation –rewards because the company is perceived as environmental, socially and economically strong. On the other hand, deletion should bring
penalty for economical, social and environmental: companies are perceived with low standards of CSR and economically.

In this study the first event of interesting was when Generali Insurance company was included in the FTSE4Good Index. In the beginning it was difficult to find the data for the period 2001 of July. Then the data for this period of calculation were selected from Bloomberg. Others 8 events will be appeared in the following graphic.

Other used information for this study was selected from the sustainable reports of Generali Insurance companies for the years 2004, 2005, 2006, 2007,

Table 7.1 of Events Studies.

<table>
<thead>
<tr>
<th>EVENTS Description</th>
<th>Data of the occurrence of events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inclusion of the Generali Group in the Index FTSE4Good Index</td>
<td>10 July 2001</td>
</tr>
<tr>
<td>2. Publication of the Generali Group’s Ethical code</td>
<td>11 May 2004</td>
</tr>
<tr>
<td>3. Deletion from the FTSE4Good Index</td>
<td>March 18th 2005</td>
</tr>
<tr>
<td>4. The Code was adopted by 41 Italy and 19 companies abroad</td>
<td>August 15th 2005</td>
</tr>
<tr>
<td>5. The first Group sustainable report was published,</td>
<td>September 15th 2005 (It was not presented in public)</td>
</tr>
<tr>
<td>- Publication of the Ethical Code for Relations with Suppliers for the year 2004</td>
<td></td>
</tr>
<tr>
<td>- Setting up of the Eco-Committee for 2004</td>
<td></td>
</tr>
<tr>
<td>6. Study of AEI standard ethics rating,</td>
<td>July 5th 2006</td>
</tr>
<tr>
<td>Generali have a ethics rating of E+ in the years 2002-2006</td>
<td></td>
</tr>
<tr>
<td>7. Second Group sustainable report was published of the year 2005</td>
<td>September 15th 2006</td>
</tr>
<tr>
<td>8. Publication of the third Group sustainable report for the year 2006. Important issues as:</td>
<td>September 15th 2007 (Only the data of publication was included, the data of the presentation was in 25 October it was not considered)</td>
</tr>
<tr>
<td>- Adoption of ethical criteria set out by Norwegian Government Pension Fund for investments in movable assets</td>
<td></td>
</tr>
<tr>
<td>9. Publication of the forth sustainable report group for the year 2007</td>
<td>Data publication April 15th 2008</td>
</tr>
<tr>
<td>With important issues as:</td>
<td>Data of presentation May 23rd</td>
</tr>
<tr>
<td>- Adhesion to the UN Global Compact 20 sep 2007</td>
<td></td>
</tr>
<tr>
<td>- Setting up of the Sustainability Committee (group)</td>
<td></td>
</tr>
</tbody>
</table>

For the study data from LexisNexis Group data base were considered. It is a data base of paper articles and newswire stories and this data base was used by (Curran, Moran, 2006) in a study. Information from IL SOLE 24 ORE the financial Italian News paper. The reason why those two

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sources of news information were used was to see if Generali Insurance Group had been subject to any significant confounding event different to the events of study during the event window, during the period in which the event took place. “A confounding event would have been a big piece of news involving the company in question” (Curran, Moran, 2006) for example an environmental disaster, litigation evolving with human rights, company having profits warning or unusually profits. No event such those were founded so the analysis took place with the defined event for the study. Moreover, Bloomberg has a data base to look at news in the specific day, pointed in a graphic diary and searching and it could be verified if some confounding information was exiting for the days in which the followings event windows took place.

7.4.2 Events Descriptions

1. Inclusion in the FTSE4Good Index:

The inclusion of Generali in FTSE4Good Index was when the index was created in 2001 and from this time (Generali Insurance company was included in the index July 2001). It was mentioned previously that company to be part of this index needs to satisfy some standards in economical, social and environmental standards and there is a specify way of selections. For instance:

Figure 7.1 FTSE4Good Company Selections Process

There is also classification about company risk impact for example Generali as Insurance Company (financial company) is located in the Medium impact sectors base on in environmental foot prints. There are some environmental criteria, social stakeholder’s criteria,
human rights criteria, supply chain labor standards criteria, and countering bribery criteria. Company is evaluating at some points the social and stakeholders criteria as the following:

### Table 7.2 Indicators FTSE4Good Index

This is information is used with the permission from, FTSE4GOOD Index, FTSE4GOOD Index Series inclusion Criteria [http://www.ftse.com/ftse4good](http://www.ftse.com/ftse4good)

<table>
<thead>
<tr>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy</strong></td>
</tr>
<tr>
<td>Adopting an equal opportunities policy and/or including a commitment to equal opportunities or diversity in their annual report or website</td>
</tr>
<tr>
<td>Adopting a Code of Ethics or Business Principles</td>
</tr>
<tr>
<td><strong>Management</strong></td>
</tr>
<tr>
<td>Providing evidence of equal opportunities systems including one or more of:</td>
</tr>
<tr>
<td>- Monitoring of the policy and workforce composition</td>
</tr>
<tr>
<td>- Flexible working arrangements and family benefits (meaning at least three of the following: flexible working time, child care support, job sharing, career breaks, or maternity or paternity pay beyond the legal requirements)</td>
</tr>
<tr>
<td>- More than 10% of managers being women or the proportion of managers who are women or from ethnic minorities exceeding two fifths of their representation in the workforce concerned</td>
</tr>
<tr>
<td>Providing evidence of health and safety systems including one or more of:</td>
</tr>
<tr>
<td>- Awards</td>
</tr>
<tr>
<td>- Details of health and safety training</td>
</tr>
<tr>
<td>- Published accident rates</td>
</tr>
<tr>
<td>Providing evidence of training and employee development systems including one or more of:</td>
</tr>
<tr>
<td>- Annual training reviews for staff (more than 25% of those staff where figures are available)</td>
</tr>
<tr>
<td>- Providing significant data on time and money spent on training</td>
</tr>
<tr>
<td>Providing evidence of systems to maintain good employee relations including union recognition agreements or other consultative arrangements (covering more than 25% of staff where figures are available)</td>
</tr>
<tr>
<td><strong>Reporting</strong></td>
</tr>
<tr>
<td>One of the following:</td>
</tr>
<tr>
<td>- Making charitable donations in excess of £50,000</td>
</tr>
<tr>
<td>- Operating payroll giving schemes</td>
</tr>
<tr>
<td>- Providing gifts in kind or staff secondments to community schemes</td>
</tr>
<tr>
<td>- Assigning responsibility for charitable donations or community relations to a senior manager</td>
</tr>
</tbody>
</table>

2. Publication of the Generali Group’s Ethical code

Ethics is the high standard of “business conduct” as “integrity, honesty” (Kline, 1985). Generali Insurance Company has high standards of ethics, and values which are content in an ethical code. In chapter 5 some aspects about this ethical code were mentioned. Here there is
complementary information about the ethical code. This Ethical Code (“The Code”) basically includes the following issues:

- The guiding principles characterizing the Group’s ethics;
- The guidelines governing the relations with all counterparts;
- The norms describing the control system to ensure that the ethical code will observed and improved

See the following table of ethical code:

**Table 7.3 Generali Group ethical Code, relevant information**

<table>
<thead>
<tr>
<th>General principles</th>
<th>Guidelines relating to...</th>
<th>Applicable regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fairness and honesty</td>
<td>• Clients</td>
<td>• Parent Company Board of Directors: definition and approval of the Code and any amendments and modifications</td>
</tr>
<tr>
<td>• Impartiality</td>
<td>• Shareholders</td>
<td>• Internal Group Auditing: collecting and checking if violations that are reported are founded and communicating about any assessed violations to the Top Management of the companies concerned</td>
</tr>
<tr>
<td>• Professionalism and enhancing human resources</td>
<td>• Staff</td>
<td>• Top Management of the Group companies involved in the assessed violations; adopting appropriate measures</td>
</tr>
<tr>
<td>• Confidentiality</td>
<td>• Contractual partners</td>
<td></td>
</tr>
<tr>
<td>• Transparency and comprehensive information</td>
<td>• Public institutions and other external entities</td>
<td></td>
</tr>
<tr>
<td>• Conflicts of interest</td>
<td>• The press and external communication</td>
<td></td>
</tr>
<tr>
<td>• Free competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Health protection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Environmental protection</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

![The Ethical Code is published on the website www.generali.com in the “Governance” section and on websites belonging to leading subsidiaries. A paper copy is also distributed to all members of staff.](image)


3. Deletion from the FTSE4Good index

Exclusion from the FTSE4Good Index in the year 2005 in March “Assicurazioni Generali” was deleted (removal from the index). Companies are deleted because of the new environmental criteria. “In May 2002, the FTSE4Good Policy Committee approved changes to strengthen the FTSE4Good environmental criteria that companies would be required to meet to qualify for and remain a constituent index. An extensive global company engagement program has been underway to ensure that all affected companies are aware of the deadlines and fully aware of what steps they need to take. At this review, 23 companies have failed to meet the FTSE4Good
environmental criteria requirements and have therefore been deleted from the index series. (FTSE4Good Index, 2005). In this 23 companies list appears “Assicurazione Generali” Generali Insurance company: it was excluded on Friday 18 march 2005 of FTSE4Good Index\(^91\), FTSE4Good European Index\(^92\). The list presents other reasons why companies are excluded not meeting new human rights criteria, not meeting social and stakeholders relation criteria, economical criteria,

In the point related to the Inclusion and Exclusion of the Generali Insurance from the FTSE4Good index, it is important to mention that the FTSE4Good index is reviewed semi-annually in September and March, by the FTSE4Good Policy Committee. It means that Generali in the other fields is meeting the FTSE4Good Index.

The research process review FTSE4Good Index is taking place around September and March, with the distribution of an extensive questionnaire in June and an update of the companies’ Corporate Responsibility (CR) data in November of each year. In this review process, EIRIS is responsible for the research and analysis globally in order to cover the FTSE4Good Index eligible universe. A variety of mechanisms are employed to access the most up-to-date relevant data:

- Scrutiny of annual reports
- Research of company websites
- Written questionnaires and liaison with companies when is appropriate
- Other publicly available material
- In addition, fact sheets detailing the information held by EIRIS are distributed to companies on a regular basis for updating and review

4. The Code was adopted by 41 companies in Italy and 19 abroad

This code was adopted in August 2005.

5. The first Group sustainable report was published

\(^92\) FTSE4Good Index http://www.ftse.com/tech_notices/2005/q1/09608_20050310_FTSE4Good_Review_Mar05.jsp
 http://www.ftse.com/tech_notices/2005/q1/09608_20050310_FTSE4Good_Review_Mar05.jsp
“Many firms started reporting about their ethical, social and environmental conduct” (Scholtens, 2008) and they communicate this sustainable ethical compromise through sustainable reports as we have seen in the previous chapters, for example Generali Insurance Company, a company with high ethical standards in ethics. The first report was published in August 2005 and important points in ethics/sustainable were created such as:
- Publication of the Ethical Code for Relations with Suppliers for the year 2004
- Setting up of the Eco-Committee for 2004


In a study conducted by the rating ethics Agency AEI, Generali Insurance Group was rated in the ethics rating by AEI ethics rating Agency “Agenzia Europea di Investimento”

<table>
<thead>
<tr>
<th>Year</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>E+</td>
</tr>
<tr>
<td>2003-04</td>
<td>E+</td>
</tr>
<tr>
<td>2004-05</td>
<td>E+</td>
</tr>
<tr>
<td>2005-06</td>
<td>E+</td>
</tr>
<tr>
<td>2006</td>
<td>EE-</td>
</tr>
</tbody>
</table>

In a classification of EEE, EEE-, EE+, EE-, E+, E-, E- were EEE represents the model, the standard model with the ideal standards. EE the media and E sotto la media. Generali Insurance company is over the media in the year 2006 and under in the others years. “La relation tra il Rating etici e le performance della società, appartenente all’indice italiano SPmib 40” (AEI, 2006)

Table 7.4 Rating in the E+ Categorizations by year 2002-2006

The categorization was EE- in 2006. The objective was to evaluate if the change of categorization has an incident in the share price.

This source of information is using with the authorization of AEI rating ethics agency
This categorization indicates that firms are down the average.

The conclusion of this study is that there is a correlation between the profit and the compromise for the company to behave responsible following the guidelines and the international standards from the UN, ODCE and EU.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ass. Generali</td>
<td>EE-</td>
<td>E+</td>
<td>E+</td>
<td>E+</td>
<td>E+</td>
</tr>
</tbody>
</table>

This source of information is using with the authorization of AEI rating ethics agency

7. **Second Group sustainable report was published of the year 2005.**

For more information see chapter 5. It is important to remember that Sustainability reporting is a voluntary initiative. This is the practices of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. According to GRI, Sustainability reporting is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g., triple bottom line, corporate responsibility reporting, etc.). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions. Sustainability reports based on the GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organization’s commitments, strategy, and management approach. Generali is following the GRI guidelines to publish the sustainable reports.

8. **Publication of the third Group sustainable report for the year 2006.**

Important issues as:
- Adoption of ethical criteria set out by Norwegian Government Pension Fund for investments in movable assets.

9. **Publication of the forth sustainable report group for the year 2007**

With important issues as:
- Adhesion to the UN Global Compact
- Setting up of the Sustainability Committee (group)
7.4.3 Methods:

The step in this research was to define the event studies of interest (See table of event studies). Then, the second was to identify the period over which the share prices of the firm will be examined, in other words, the event window. That for this research was defined for a period of 29 days. For the calculation, it is decreasing in one day. According to (Curran, Moran, 2006). It is normal to define the event windows large that the specific period of interest. The windows of event goes a few days before the announcement to a day or two after it.

In this event the first interest event was the Inclusion of Generali Insurance company but it was not used, because, the data were not available. The second event was the publication of the ethical code of Generali Insurance Company in 11 May 2004.

To calculate the abnormal returns (AR) or unexpected returns for each CSR event in an event window of 29 days, information of Generali actual return (Rjt) in a event window of 29, is necessary the Generali actual return and the Generali expected E(Rjt) and to calculate the difference. If the difference is significative then CSR event has incident in the share price value:

\[ AR_{jt} = \text{Actual return } (R_{jt}) - \text{Expected return } E(R_{jt}) \]

Then for each event, for an event window (period of analysis) of 29 days, based on the historical data from the Yahoo.it and Boomerang financial data of the S&BMib 40 and the Generality security were used and the calculation was made, using Microsoft Excel.

Calculation of the:

1. **Generali Actual return** (Rjt)

The share of return/actual return was calculated using:

\[ R_{jt} = \frac{(P_{jt} - P_{jt-1})}{P_{jt-1}} \]

Where Rjt is the share return and Pjt is the share price for day t and Pjt-1 is the share price for the previous day.

2. **Calculation of the Generali Expected return** E(Rjt):

The expected return of the Generali was obtained using the *market model* equation:

\[ E(R_{jt}) \]

---

93 Market Mode was named by Sharpe the diagonal model was development in W.F Sharpe “A simplified Model for Portfolio Analysis” Management science (January, 1963 pp 277-293)
E (Rjt) = alfaj + Bj Rmt + Ejt

Where Rmt was the return on a market index /S&Pmib for day t, B measure the sensitive if a firm to the market risk., alfa, measure the mean return over the period not explained by the market (intercept) , and E was a statistical error term sum(E)= 0.

2.2 Market actual return :
The actual return of the market were calculate using Rmt = Ln ((Pmt/ Pmt-1)
Where Rmt is the share return and Pjt is the share price for day t and Pjt-1 is the share price for the previous day.

2.3 Calculation of Beta :
Bj = COVjm /(VARm) = COVjm/(Des)^2

2.3.1 Calculation of the variances and covariance’s:
(Cov)jm = 1/(n-1)SUM ( Rjt-Rj )(Rmt- Rm)

VARm =SUM((Rmt-Rm)^2)/(N-1) = (Des )^2

2.3.2 Calculation of the alfa
According to wikipedia: http://en.wikipedia.org/wiki/Regression_analysis:
It was calculated in the point when the return of the market is zero, from the formula:

alfa= Rj – Bj * Rm

3. Calculation of the Abnormal return
If there are differences in the actual return and the expected return, it is possible to talk about abnormal returns or unexpected returns.
AR/abnormal return/Unexpected return= Actual return (Rjt) - Expected return/normal return E(Rjt)
ARjt = Rjt – E(Rjt) \( \neq 0 \) if the different is different from zero there are unexpected return.

And abnormal returns= Ejt = Rjt – (alfa_1 + Bj Rmt + Ejt)

AR = unexpected return for day t and E (Rjt) is the expected share return for day t. The abnormal return is the normal return minus expected return. The unexpected return is the normal return minus the expected return.

The expected return E(Rjt) was the returns normalized with beta (B). This shows what the market is doing at that time related to market risk at that time. It is important to understand that any significant difference between the actual returns and the expected return could have an effect of the events in CSR of Generali for example deletion of the FTSE4Good Index and so on:

3. Calculation of Abnormal return or unexpected return

The abnormal returns (AR) or unexpected returns of residual) were calculated for the event windows according to the formula

\[ \text{ARjt} = (Rjt) - E(Rjt) \]

AR = unexpected return for day t and E (Rjt) is the expected share return for day t. The abnormal return is the normal return minus the expected return. The unexpected return is the normal return minus the expected return.

AR/abnormal return/Unexpected return= Actual return (Rjt) - Expected return/normal return E(Rjt)

The estimation window used to calculate B was calculated to 29 days where the event takes place and days before and after. This event window was selected in order to minimize the possible effect of other events. It was not possible analyzed the event inclusion on the FTSE4Index the data are not available in the S&p Mib 40 because the data is in 2001 when the index was created. The event included exclusion of the index, the data publication of the 4 sustainable reports since 2005 to 2008, creations of the ethical codes, and so on.

The prelist of events was redefined because in the initial was found relevant events that could have effects with others or overlapped.

7.5 Results
The table of events Descriptive statistics shows the descriptive statistics for the data analysis: The statistics data are from the period July 10th 2001 with event study window 2-7-01 until April 15th 2008 with event study of 8-05-08

The table 7.5 Events Descriptive statistics

<table>
<thead>
<tr>
<th>EVENTS Descriptions</th>
<th>Event Data</th>
<th>Event window (29) days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inclusion of the Generali Group in the Index FTSE4Good Index</td>
<td>10th July 2001</td>
<td>2/7/01-10/8/01</td>
</tr>
<tr>
<td>2. Publication of the Generali Group’s Ethical code</td>
<td>11 May 2004</td>
<td>21/4/04 -31/5/04</td>
</tr>
<tr>
<td>3. Deletion from the FTSE4Good Index</td>
<td>18 March 2005</td>
<td>25/2/05 -7/4/05</td>
</tr>
<tr>
<td>4. The Code was adopted by 41 Italy and 19 companies abroad</td>
<td>15 August 2005</td>
<td>22/7/05 -31/8/05</td>
</tr>
<tr>
<td>5. The first Group sustainable report was published,</td>
<td>15 September 2005</td>
<td>2/9/05 -12/10/05</td>
</tr>
<tr>
<td>- Publication of the Ethical Code for Relations with Suppliers for the year 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Setting up of the Eco-Committee for 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Study of AEI standard ethics rating. Generali have a ethics rating of E+ in the</td>
<td>July 5th 2006</td>
<td>27/6/06 - 4/8/06</td>
</tr>
<tr>
<td>years 2002-2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Second Group sustainable report was published of the year 2005</td>
<td>Sept 15th 2006</td>
<td>28/8/06- 5/10/06</td>
</tr>
<tr>
<td>issues as:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is very important to see that for the sustainable report publication to establish the exactly day was difficult and here it was assumed.

Abnormal returns were calculated for each day of the events windows and for each event the. 
\[ AR_{jt} = R_{jt} - E(R_{jt}) \neq 0 \] and the different between the actual return \((R_{jt})\) and the expected returns \(E(R_{jt})\) was different from zero, for all of data of the sample. It means that they were unexpected return for each event and event windows.

The event window for the event 1: Inclusion of the Generali Group in the Index FTSE4Good Index, runs from de date, 2/7/01 until 10/8/01 (29 days). In which period the actual return and
expected return were compared and the difference, the Abnormal return was for the days 10 of July 2001 Unexpected or Abnormal AR= -0,004562242. It was negative. The actual return was less that the expected return. In the followings days the day 12th AR = 0,005680708 and 13th AR = 0, 008373558 were positive. It could be possible to say that to be included in the index is perceived positive by investors in the following days after the event took place. Investors could be informed and their decisions could be affect by sustainable comprise of Generali Group –The inclusion in the index FTSE4Good-. It is important to say that the unexpected return is not significant. The actual return = Rjt= 0,001895825 = the expected return was E (Rjt) = 0,006458067.

In the day 16th the actual return was equal to zero, the different was the value of abnormal return was the value of expected return. Investors were not affected by the sustainable decisions. None of those returns were significant different form zero. But the movements can be interpreted in the days 12th and 13th as the market responding positively to the news of announcements on these days. See the table of Inclusion of the Generali Insurance Company in the Index FTSE4Good. In the days 11th the abnormal return was negative. Investors were not affected significantly.

**Table 7.6 of Information about Event of Inclusion of the Generali Insurance Company in the Index FTSE4Good**

<table>
<thead>
<tr>
<th>Data</th>
<th>Actual Return</th>
<th>Expected return</th>
<th>Abnormal Return or Unexpected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2/7/01</td>
<td>0.004083264</td>
<td>0.003971414</td>
</tr>
<tr>
<td>2</td>
<td>3/7/01</td>
<td>-0.005684077</td>
<td>0.001929641</td>
</tr>
<tr>
<td>3</td>
<td>4/7/01</td>
<td>-0.017291576</td>
<td>0.001087685</td>
</tr>
<tr>
<td>4</td>
<td>5/7/01</td>
<td>0.001598491</td>
<td>0.011577211</td>
</tr>
<tr>
<td>5</td>
<td>6/7/01</td>
<td>0.011316058</td>
<td>-0.000621263</td>
</tr>
<tr>
<td>6</td>
<td>9/7/01</td>
<td>0.002702712</td>
<td>0.00309492</td>
</tr>
<tr>
<td>7</td>
<td>10/7/01</td>
<td>0.001895825</td>
<td>0.006458067</td>
</tr>
<tr>
<td>8</td>
<td>11/7/01</td>
<td>-0.002970787</td>
<td>-0.000357464</td>
</tr>
<tr>
<td>9</td>
<td>12/7/01</td>
<td>0.003794731</td>
<td>-0.001885977</td>
</tr>
<tr>
<td>10</td>
<td>13/7/01</td>
<td>0.009574223</td>
<td>0.001200665</td>
</tr>
<tr>
<td>11</td>
<td>16/7/01</td>
<td>0</td>
<td>0.008913146</td>
</tr>
<tr>
<td>12</td>
<td>17/7/01</td>
<td>0.013301841</td>
<td>0.007218346</td>
</tr>
<tr>
<td>13</td>
<td>18/7/01</td>
<td>0.014053158</td>
<td>-0.007283762</td>
</tr>
<tr>
<td>14</td>
<td>19/7/01</td>
<td>0.013386953</td>
<td>0.002520316</td>
</tr>
<tr>
<td>15</td>
<td>20/7/01</td>
<td>-0.013763247</td>
<td>-0.003407042</td>
</tr>
<tr>
<td>16</td>
<td>23/7/01</td>
<td>0.015399926</td>
<td>0.001339295</td>
</tr>
<tr>
<td>17</td>
<td>24/7/01</td>
<td>0.011250923</td>
<td>0.003852823</td>
</tr>
<tr>
<td>Date</td>
<td>Value 1</td>
<td>Value 2</td>
<td>Value 3</td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>---------</td>
<td>--------------</td>
</tr>
<tr>
<td>25/7/01</td>
<td>-0.008296387</td>
<td>-0.00319241</td>
<td>-0.005054287</td>
</tr>
<tr>
<td>26/7/01</td>
<td>-0.012149755</td>
<td>-0.007226921</td>
<td>-0.004922834</td>
</tr>
<tr>
<td>27/7/01</td>
<td>-0.025069894</td>
<td>-0.004761695</td>
<td>-0.020308145</td>
</tr>
<tr>
<td>30/7/01</td>
<td>-0.005751081</td>
<td>-0.001531972</td>
<td>-0.004219046</td>
</tr>
<tr>
<td>31/7/01</td>
<td>-0.00976264</td>
<td>-0.00382133</td>
<td>-0.006380507</td>
</tr>
<tr>
<td>1/8/01</td>
<td>0.002990812</td>
<td>0.003103525</td>
<td>-0.000112713</td>
</tr>
<tr>
<td>2/8/01</td>
<td>0.006021075</td>
<td>0.000993419</td>
<td>0.005027656</td>
</tr>
<tr>
<td>3/8/01</td>
<td>-0.003545759</td>
<td>-0.004711204</td>
<td>0.001165445</td>
</tr>
<tr>
<td>6/8/01</td>
<td>-0.006771549</td>
<td>-0.00103335</td>
<td>-0.005738198</td>
</tr>
<tr>
<td>7/8/01</td>
<td>-0.002431423</td>
<td>0.003822455</td>
<td>-0.006253879</td>
</tr>
<tr>
<td>8/8/01</td>
<td>0.016756945</td>
<td>0.0045713</td>
<td>0.012185645</td>
</tr>
<tr>
<td>9/8/01</td>
<td>0.01251907</td>
<td>0.007808376</td>
<td>0.004710694</td>
</tr>
</tbody>
</table>

Some betas for some periods were > than 1 other < than one. For example the beta for the first events was $\beta = 0.523283513 < 1$. It means that the systematic risks for this period of the Generali were less than the market (S&amp;pmib-Index)

- **Results for others events:**

  For the event of 9, Publication of the forth sustainable report group for the year 2007 the abnormal or unexpected for the $15^{th} = 0.001529571$ $16^{th} -0.004811732$, $17^{th}$ $0.004665363$ and $18^{th}$ $0.003587541$. For the days 16 and 17 and from the 19th until 30 of April the value was negative again. The expected return was higher than the actual return.

  In the period of the studies, no confusing events that could interfer with the analysis of the information were identified. It was not the case for this research. In the data bases: LexisNexis Group and SOLE 24 ORE⁹⁴, only two no confusing news -that not interfere significantly were found. Those are: (1) “Italian insurance giant Assicurazioni Generali S.p.A. has received approval to open a non-life branch in Daqing, China, the China Insurance Regulatory Commission confirmed”, (LexixNexis, 2008) in March 24th ⁹⁵ was finding out of the windows event. (2) “Assicurazioni Generali S.p.A. has developed a policy to insure the Vatican Library’s art and other holdings. The Trieste, Italy-based insurer said the coverage, which Generali claims is the first of its kind, covers the library’s artwork, manuscripts, engravings, prints, books, coins and medals during public displays and other events around the

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⁹⁴ Sole 23 Oreo: [http://www.ricerca24.ilsole24ore.com/fc?keyWords=Assicurazioni+Generali+S.p.A&amp;channelsId=informazione%7Cbsora%7C47%7C33%7C30%7C32%7C43%7C40%7C35&amp;cmd=static&amp;child=30&amp;path=2fsearch2fsearch_engine.jsp](http://www.ricerca24.ilsole24ore.com/fc?keyWords=Assicurazioni+Generali+S.p.A&amp;channelsId=informazione%7Cbsora%7C47%7C33%7C30%7C32%7C43%7C40%7C35&amp;cmd=static&amp;child=30&amp;path=2fsearch2fsearch_engine.jsp)

world” (LexisNexis,2008) in April 18th 96. Moreover, the Bloomberg the sections related to the news were reviewed and not confusing events were present for the period of analysis. Although it found that the abnormal return is not significant although it is different from “0” and there is not big impact in the short time, maybe investors do not have all of this information. Firms need to care about CSR. “Firms ignoring socially responsibility may destroy long run shareholder value due to reputation losses and/or potential litigation cost”(Renneboog, L, Horst J.T, Zhang, C, 2008)

7.6 Conclusions chapter 6:

It is very difficult to generalize about the relationship between CSR and profitability.
CSR is consistently with the long term maximization shareholder value because for a company acting CSR represents a significant value for investors. Company can be perceived as an ethical, CSR, sustainable it affects positively its reputation. In the short time it was shown that for all of the events taking place in the different events windows, that non of these abnormal returns were significant different from zero, and in some of them, the difference was positive, which could be interpreted as the market is responding positively to the news CSR of the announcements on days:

- For the event one (1) even though the abnormal return was not significant different from zero and negative for the days 10th and 11th for the days 12th and 13th it could be inferred that these movements in price are responding positively to the news of the announcements
- For event 9th it may indicate that investors are influenced for two days for the news about CSR of Generali Group communicating in the sustainable report. The unexpected report was positive: 0,001529571 negative in the following day and positive the two following days not significant, different from zero.
-For the event 2 Publication of code of ethics 11 of may 2004 the unexpected return was = -0, 003508625 and the 12th and 13th the values were also negative -0, 008455881 -0, 007365439 14th, 17th, 18th and 19th were positive 0, 008903778; 0,000434883 0,001125009 0,002312166 respectively
- For the event 3 and 4 unexpected return was negative and not very significant different from zero, neither the variations in the following days.
-For the event 5,6,7,8 the expected return was positive and not significant different from zero and the trend was positive and has lead positive impact on the returns.

Chapter 8

8. Conclusions, suggestions and recommendations and further topics of research

8.1 Conclusion

In the ethical finance a new paradigm, the root of the problems, is based on moral, and principles compromises. The new idea with the new finance/new paradigm has 3 dimensions: (1) ethical dimension the umbrella of every thing (Hoffman, Frederick, Schawartz 2001), (2) CSR dimension – voluntary initiative beyond the law (dynamical law), that is supporting law and meeting social expectations (stakeholders expectation) poverty decreasing, SRI, education provider, concerns about environmental and social and (3) sustainable dimensions; companies with concerns about the economical, environmental and social issues; the interactions of 3 dimensions converge to social value, this is the very important value in the long term, and the really impact that corporations even financial corporations have in the society in which they operate (Rangan97, V, K,2009)

Organizations are lead by manager’s normal people with values, moral, principles. They have to meet satisfaction expectations of the share holders and other stakeholders with moral of values and principles that create. Organizations interact with systems and organizations with high moral and principles standards too, they need to cooperate and to work with other, in that way their CSR social value creations could be stronger –with governance, NGOs, and Agencies, searching for the intersections and convergence of managers, ethical/CSR to be sustainable (Hoffman, Frederick, Schawartz 2001).

What is the responsibility of the business? It is the creation of social value (Rangan, V, K, 2009), stakeholders satisfaction of expectation and in the long run convert with the economical-financial value (share holder financial expectations/profits) creating benefits for all Social value is creating by corporation doing programs of education, decreasing illiteracy not decreasing the

97 Rangan V.K is professor at Harvard University some ideas were taken from a seminar in which I participate 

Business and Government Luncheon Seminar: CSR is here to stay, The mossaevar-Rahmani Center for Business and Government Harvard Kenedy School, February, 26, 2009
hungry, but creating opportunities in a sustainable way for people to leave of the poverty and creating entrepreneurship opportunities. Then this is perceived by investors, customers and the financial value and the social value convert in the long run. Try to creating dignity life and equality life for all. Social value can be created by placing saving dollars or investing in social institutions (social banks) into development financial institutions, investors are directing capital to those, who never qualified for traditional loans. (Brill H., Brill A Feigenbaum, 2000) “This in turn helps economically disadvantage people lift themselves out of the cycle of poverty” In other words, Investing focus on values, principles and moral” Brill H., Brill A Feigenbaum, 2000)

When companies have a compromise to satisfy social expectations, the new capacity and the new reputation is reflected in firms’ value. It occurs mainly in the long way, because the company reputation is increasing and the costs of demand are reducing. In the long term there is generation of share value. “Some CSR studies argue that firms investing in CSR create shareholder value in the long run although stock markets undervalue CSR in the short run” (Renneboog, L, Horst J.T, Zhang, C, 2008).

Ethical/CSR/Sustainable can be a source of good for the stakeholders, competitive advantage and value creation for the firm mainly in the long term because of reputation because of benefits that firms could be received when they incorporate it in their strategy (see chapter 2). But firms need to be creative and innovative in those innovations. (Allen D, B & Husted B, W 2007) mentioned that Michael Porte claims that CSR can be both good and wellspring of innovation, competitive advantage and value creation for the firm. It is a creation of value in terms of benefits and financial performance. The value creation is a consequence of CSR strategy that affects too many areas of the firm. There are too many variables influence firms financial performance to insolate or thing only in financial performance is wrong way (Allen D, B & Husted B, W 2007)

Ethics/CSR/Sustainability is needed in financial area: (1) in financial markets, financial transactions take place in markets, and it is important to have moral rules and expectations of moral behavior. The most basic of these is prohibitions, and prevents again fraud and manipulations. (2) Ethics is needed in financial services industry (banks, insurance industry…) As an industry it has the obligation to develop products that fit people needs to and to market them in a responsible for example avoiding coercive sale tactics-practices, giving transparency in information of the products. (3) Ethics is needed in financial people in organizations; it helps
them to face situations of ethical dilemmas (Boatright. J.R, 1999) making them to make the right decisions. The law is good support; it is known enough, the ethics/CSR goes beyond the law. The financial area, corporation in financial areas need to invest in social activities, creating social value – Micro credits to create, and opportunities to develop business for the most vulnerable people the poor to create equality and dignity life.

Many ethical issues in finance have been addressed by the law and industry regulation. However, It is important to address the ethical principles to the heart of regulation. For example: most law and rules again fraud and manipulation in security markets attempt to reinforce ethical standards, and issues not yet settle by the law or self regulations are debated in part as matters of ethics. It is important to define the relevant principles for solving different kinds of ethical principles. “Financial ethics must include at minimum principles of role of obligation, fairness in market exchange, the duties of agents and fiduciaries and the welfare of society as a whole” (Boatright. J.R, 1999)

Generali Insurance Company is a firm with high ethical/CSR/sustainable standards, CSR/sustainable and social concerts, for instance the participation to the program in “Comunità di Sant’Egidio a program DREAM (Drug Resources against AIDS and Malnutrition in the Republic Democratic of Congo), Italian initiative. In Spain Generali supports the project “Pinta una sonrisa” helping children to recover of the trauma of children from tumor. In Austria/Slovenia Generali made donation to the Clinic Clowns e Nasi Rossi, this is a voluntary group that goes to hospital to entertaining children that are recovering from big illness. In China Generali supports the project Hope which has the objective to mobilize resource in side and outside the countries to improve educative services in very poor areas, for instance the funds were used to create a school in the province of Guangdong. In Panama, Generali supports the project “Escuelas Racho por escuelas dignas”, this a State program that creates elementary schools in rural areas helping children of low opportunities with education.

Even thought the comprise of CSR of Generali Insurance Company always has been existed, one of the most significant findings in this research is that CSR comprise has increased considerable since 2004 when they formally started to report publicly this comprise. The consistency and quality of the report and assurance approach is demonstrated by increasing the use of standards.
Companies as Generali Insurance Group have a strong mission, vision and principles, code of ethics in which the CSR is supported and incorporates those which are the center of operation in their sustainable strategy; Generali Group works with transparency (sustainable reports) and strong values. This sustainable strategic management is a product of its leaders. This sustainable initiative gives a competitive advantage and good reputation to Generali. Strategic sustainable actions are driven by the top management’s values including commitment in both profits and social responsibility. The sustainability initiative is part of the structure, CFO, especial department. They try to integrate Ethics/CSR/Sustainable to create social value. Also the collaboration with externals groups doing right thing for example ANIA, “Associazione Nazionale imprese Assicuratrice, Abi Associazione Bancatie Italia”.

The Generali Group has been disclosing its information related to corporate social responsibility in its sustainable report, Corporate governance, operation in third world countries, Corporate Governance, report on incidents compliances and not compliances with the code., website, and they are interested in received feedback and clarify information about the information they made public in this website.

It is important for the rating annalist and investors to capture the right information. It is very difficult to include reliable information in the investing process. Rating the companies correctly on these extra financial criteria is one of the key points. It would be interesting to think in a second generation of rating. That it means to pay more attention to the quality of data gathering and looking for specific issues sector by sector with weight factors to different segments. For example, social governance will generally have strong economic impacts for companies and their future profits.

The performance of the company comes from extra financial criteria based on ethical criteria, environmental and social issues will be coming with the time, because the considerations are reflected slowly in the stock prices. In the future, it will be more and more important that companies that are new and bad at CSR transparency will have this negatively reflected in their stock price. Enron and WorldCom are becoming familiar examples. Extra financial rating is not yet reflected in the stock price, but it will be so when more institutional investors choose SRI. At that time, the performance will grow. In other words, it is important to see that SRI performance depends on the institutional investors implementing their good governance and SRI strategies.
It is important that even an small event could change the market completely, for example thinking in that way a formulation of a vision for the Insurance companies and the whole insurance sector in the base of unification information focus on ethics, it will be perceived by investors and will make the difference. In that way it is important to put more pressure on the portfolio managers to make use of the extra financial criteria, and really make usable these criteria.

It is important every time to work more in a quantitative processes, to have specialized people, to follow continuously the benchmark tool and companies, seeing continuously the performance of a company (Generali) against other companies. And this gives an incentive to the company to go further with its performance; For example in January 2008 the Innovest identified the most 100 sustainable companies in the world, The global 100\(^{98}\) is a list in the world the publicly – traded companies that base on analysis by Innovest has the best developed abilities relative to their industries to management the environmental, social and governance (ESG) risk and opportunities they face. In the insurance sector, companies as: Insurance Australia Group (Asia), Swiss Reinsurance Company, (Europe) and American International Group Inc in North America are included.

Companies should try to organize the community of large institutional investors and recommend engagement in pushing for SRI and corporate governance criteria, try to organize forum meeting of divulgations and continuously working and updating in OECD Guidelines for multinational enterprises and the United Nation’s Global Compact Principles. Paul Hohnen, director of the Global Reporting Initiative (GRI), argued that the 21\(^{st}\) century themes of transparency, better governance and enhanced performance are absolutely essential to economic development. Moreover, it is very important communities, people, institution and so on place demand on business, because some times it is difficult to understand the commitments that governments are making and what the market is doing itself.

It is important that a company manifest and has the comprise in corporate social responsibility but it is necessary every time developing and having sophistic tools in order to translate the Committee’s commitments, aims, and aspirations into actual performance enhancing measures. For example as Generali is adopting it, the GRI as an emerging tool kit that could be used by

\(^{98}\) To see more information goes to the http://www.esewire.com/Nywe/10851.html, http://www.global100.org/2008/by_industry.asp
corporations examine performance and can be used as a reporting framework, -the GRI incorporated the UN Global Compact Principles and OECD Guidelines-.

From another point of view, if the share prices are increasing as a effect of social responsibility perceived by investors (news) related to the events studies and the conclusion of the last chapter 6, it seems that the abnormal returns show that they are not very significant different from cero, however –see conclusion chapter 6. The topic of ethics/CSR/sustainability is relatively new and some investors do not know about those concepts. For others, those topics are not important. Some investors probably give more attention to financial information rather to CSR information, about a company when making investment decisions. Other investors prefer to have less return and to invest in a company, which is CSR; they make a link between profit and CSR but at the moment, they would be the minority (Curran, Moran, 2006). Mainly the investor will perceive the CSR in the long run and also for the corporation in the long run it will be profitable: there will be more benefits of loyalty, reputation perception and other benefits, as it was indicated in Chapter 2.

It is important to push trying to capture the attention of behavior of listed companies with environmental and social responsible and governance issues. In that way, companies and investors are more compelled to pay more attention to extra financial criteria. It is important to keep in mind that the $\frac{3}{4}$ of the value of the company is dependant on non tangible assets of companies. And it is demonstrated that looking for ethical goals investors and companies find efficiency, as well as better understanding of risk, reputation and innovation.

### 8.2 Suggestion and recommendation

One of the true judges of company ethical/CSR/sustainable compromise are, that currently this compromise is reported in the report sustainable report. This is one form in which corporations are perceived. Reports indicate what they are doing to create social value and economical value. Companies continuously need to improve and cooperate with other corporations making stronger the industry policy and pushing for CSR regulations working with Governments, customers, employees, community, even though they collaborate in the social value, they need to work with other, to work alone is much more difficult. In the case of the Generali, it collaborates with others institutions, but reinforcing that continually it is important. For example to do it with third parties such as stakeholders Panels, subject matters experts and
professional assurance providers can help to make stronger the CSR issue and insurance the credibility information guidelines companies on progress toward a more sustainable future.

It could be important that Generali Insurance Group and companies which are evolved in CSR/SRI working continually in conduction, divulgation and education of SRI/CSR initiatives and performance, trough out media, industrial interaction (working groups and partnership). They should be made publicly, visible and credible, its sustainable compromise, -showing their CSR impact, growth and futures plans-.

Researching continually in industry policies affecting the SRI/CSR sector is important. The most inform a company is the most actions and plans can made, information should be consolidated in formal ways for examples using data bases.

It is important that companies even Generali Insurance Company, try to working in international environments with other companies in the same sectors or different sectors. Al of that is in order to create rules of operations, learning form bench marketing, promoting and sharing experience, supporting and coordinate international activities in CSR/SRI and driving investors.

8.3 Further topics of research

1. To analyze how the CSR is reflected in the long run in social and financial value. What corporations are doing to create social value, and how this converts with financial and economical value in the long run?

2. How ethical investors make decisions to invest in companies that have social, environmental, economical cancers, in the creations of social value. What are the criteria in the SRI (surveys?)

3. How the performance of social ethical is founded and how they are perceived by their SRI and managers.

4. How the CSR is perceived by employees of the same company in two different countries, case Generali locations in Italy Trieste, and Generali locations in Linz in Austria.

5. Are ratings agencies doing the right thing, which entity is controlling them?

6. To create a sustainable index in order to set up new complementary standards of CSR.
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