

Measuring Corporate Social Responsibility

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ABSTRACT

The explosive growth in the demand for ratings of corporate social responsibility (CSR) has resulted in a marked increase in the number of groups supplying CSR ratings to investors and consumers. The purpose of this paper is to show:

- *how important and varied these groups are;*
- *the trend in the CSR business;*
- *the added value of these ratings for business credibility with investors and consumers.*

INTRODUCTION

In recent years, explosive growth in the demand for ratings of corporate social responsibility (CSR) has been witnessed. As a result, there has been an explosion in the number of groups that supply CSR ratings to investors and consumers. These ratings have become so important that many large companies now appoint in-house specialists and teams to monitor and communicate their social performance. Two other trends reinforce the rising visibility of CSR ratings:

- *Social investment funds:* The growing prominence of mutual funds made up exclusively of companies that pass various social screens has also increased demand for robust methodologies with which to assess corporate social performance.
- *Social regulations:* A patchwork of

national regulations and international agreement has developed that now compels businesses to consider the social and environmental implications of their activities and further fuels the boom in CSR ratings.

The ratings' marketplace today is confusing, partly due to the proliferation of players carrying out evaluations, as well as the variety of criteria they apply in judging social responsibility. Nonetheless, a limited number of international agencies dominate the market, with a number of smaller players who have gained visibility through media distribution.

Most of the principal agencies are specialized. Early efforts to assess the extent to which some companies are 'socially responsible' and others are not, have given way to more focused analysis of the business risks associated with specific production activities, service sectors and management practices. For instance, Innovest has become known for assessing environmental risks using a proprietary instrument called Ecovalue 21. The agency maintains a database that covers over 20 industries and assesses some 1,700 enterprises in North America, Europe and Japan.

Table 1 describes the principal agencies and indexes operating in the Organisation for Economic Co-operation and Development (OECD) countries.

Table 1: Principal Agencies and Indexes Operating in the OECD Countries

<i>Countries</i>	<i>Ratings agencies</i>	<i>Market</i>	<i>Indices</i>
Australia	SIRIS (SIRI)	300 companies on the ASX	
Belgium	Stock at Stake (SIRI)	Companies in Belgium, Luxembourg, France, Japan, Hong Kong and Singapore	Ethibel: Asia/Global/Américas/Europe
Canada	MJRA (SIRI)	400 companies in Canada	Jantz S.I.
France	Vigeo	Eurostock 600	ASPI Eurozone
Germany	IMUG Oekom Scoris (SIRI)	Companies in Germany and Austria 80% MSCI world Ratings of ATX 21, DAX 30, M DAX 70	
Italy	Avanzi (SIRI)	Companies in Italy	
Japan	Good Bankers CPRD	600 companies in Japan 700 companies in Japan	MorningStars Socially Responsible I.I.
Netherlands	Triodos (SIRI)	2,000 global companies	
Spain	Fundación EYD (SIRI)	35 companies in Ibex and IGBM	
Sweden	CaringCompany (SIRI)	Scandinavian companies	
Switzerland	Centre-Info (SIRI)	Swiss companies	
UK	SAM Core Ratings EIRIS PIRC (SIRI)	Europe, EEUU, Australia 1,000 companies in Europe, Asia and North America 2,500 companies in FTSE World	FTSE 4 Good
USA	KLD Innovest	3,000 companies in Socrates database 1,300 companies in MSCI World	Domini 400 S.I./LCS/DMS/NASDAQ S.I. Dow Jones Sustainability Index

CSR RATINGS METHODOLOGY

Most agencies follow a comparable three-step process to develop a CSR assessment and rating:

- 1 Agency compiles available external information about company
- 2 Agency sends out detailed questionnaire to company
- 3 Agency interviews key informants internally and externally.

Reports are then prepared and commerci-

alized to interested parties (generally consumers, investors and rated companies). Sales of these standardized reports are typically the principal revenue stream of these agencies. Additional revenues come from customized studies undertaken on behalf of clients, for which field analysts make on-site visits to the company. The French agency Vigeo estimates that a custom rating normally takes two months to carry out.

Numerous criteria are applied in developing a CSR rating. For instance, the well-known Calvert Group relies on an

internal team of experts in labor relations, environmental sustainability, military and defense issues, international human rights, animal welfare and community banking practices to assess corporate performance in six broad areas:

- Workplace
- Environment
- Product safety and impact
- International operations and human rights
- Indigenous peoples' rights
- Community relations.

Most such funds rely on exclusionary screens and eliminate companies from their funds if: they produce tobacco, tobacco products or alcoholic beverages; use power from nuclear power plants; have material interests in the manufacture of weapons or weapons-specific components; are involved in gambling as a main line of business; or lack diversity at the level of the board of directors/senior management. Generally, they also perform qualitative screens to identify companies that make useful products; have a history of environmental stewardship; good employee and community relations and strong corporate governance. Additional issues of interest often include a company's human rights violations, workplace diversity, involvement with genetically-modified foods and animal testing.

AGENCY NETWORKS

Many smaller agencies compete with international ratings agencies by creating networks of shared databases and reports which they commercialize in their own countries or regions.

The SIRI group, for instance, is present in 11 countries and has developed the SIRI 500 Global Profile, a common system and format for all its member agencies, which allows them to access some 100 analysts who evaluate over 1,700 companies.

EIRIS has a global structure for distributing its reports. Some smaller national agencies which belong to the SIRI network also have agreements with EIRIS, for instance, Avanzi, Fundación Ecología y Desarrollo, GoodBankers, Stock at Stake and IMUG. The EIRIS archives provide information about some 2,500 companies, covering the *FTSE-All-World-Developed-Index* as well as most public companies in Asia, Australia, New Zealand, Europe and North America.

The ECGS network specializes in voting recommendations and in the analysis of governance structures in European companies. Some of its member agencies also belong to the SIRI group, for instance, CaringCompany, Centre-Info, Triodos and PIRC.

CSR INDICES

Indices vary in the degree to which they rank none or only a small percentage of companies from specific sectors. Table 2 shows the top ten companies by market value in the *ASPI Eurozone Index* and their presence or absence from the three most important European social responsibility indices: The FTSE 4 Good, the Ethibel ESI and the Dow Jones S.I. Stoxx.

The Domini 400 is among the earliest CSR indices and was developed by the North American ratings agency KLD. The top ten companies in the Domini 400 are shown in Table 3.

RI INSIGHTS

It is clearly in a company's interest to earn a favorable CSR rating. A good rating brings awards, applause, sales and reputation. It reduces the likelihood of 'churn' — when consumers, investors or employees mobilize against the company. Nonetheless, even a good CSR rating does not guarantee acceptance by stakeholders. Spurred by non-governmental organisations (NGOs), disgruntled employees, or distraught consumers, activists are often

Table 2: The Top Ten Companies by Market Value in the ASPI Eurozone Index

<i>ASPI Eurozone Top 10 (market value)</i>	<i>FTSE 4 Good Europe</i>	<i>Ethibel ESI</i>	<i>Dow Jones S.I. Stoxx</i>
Royal Dutch Shell (Netherlands)	•	–	•
Nokia (Finland)	•	•	•
Telefónica (Spain)	•	–	–
Siemens (Germany)	–	–	•
BNP (France)	•	–	•
BCO S.C.H. (Spain)	•	–	•
ENI (Italy)	•	–	–
ING Group (Netherlands)	•	–	•
Deutsche Bank (Germany)	•	•	•
Aventis (France)	•	–	•

Source: Component of indexes: Aspi Eurozone: 03/09/03; FTSE 4 good 19/09/03; DJSI.

Table 3: The Top Ten Companies in the Domini 400

1	Microsoft
2	Johnson & Johnson
3	American International Group
4	Merck & Co. Inc.
5	Intel
6	Procter & Gamble
7	Bank of America Corporation
8	Cisco Systems
9	Verizon Communications
10	Coca-Cola

quick to launch boycotts or marches against companies that can cause long-term damage to a company's reputation. In turn, a poor CSR rating can shake the economic foundations of a company's operations. It does so by undermining trust in the company and its ability to deliver on its promises to employees, customers and investors.

Ratings agencies therefore have an enormous responsibility to develop ratings that are perceived as valid and reliable. To increase the actual and perceived validity of their ratings, CSR agencies should guard

carefully against bias. On one hand, they should include in their ratings a representative cross-section of stakeholders. Arms-length assessments are dangerous. On the other hand, they should also carefully review the ratings criteria used to ensure that they are perceived as both legitimate and appropriate by the stakeholders and the companies being rated.

The tension between ratings agencies and the companies they rate is palpable. Companies are frustrated by the proliferation of agencies carrying out ratings and regularly complain of the costs involved in complying with survey and interview requests from raters. Coordination of ratings processes through networks of shared assessment can help reduce the willingness of companies to participate in CSR ratings processes and demonstrate the transparency of their operations to the world.

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NOTES

The following are useful websites for further information:

ASPI Eurozone	www.vigeo.com/site.php?rub=59&lang=en
Avanzi	www.avanzi-sri.org
CaringCompany	www.caringcompany.se
Centre-Info	www.centreinfo.ch
Core Ratings	www.coreratings.com
CPRD	www.public.or.jp
Domini 400 S.I./ LCS/DMS/ NASDAQ S.I.	www.kld.com/benchmarks/index.html
Dow Jones Sustainability Index	www.sustainability-indexes.com
ECGS	www.ecgs.net
Ecovalue 21	www.innovestgroup.com/pdfs/ISVA_Best_Practice_Report_2002.pdf
EIRIS	www.eiris.org
Ethibel ESI	www.ethibel.org/pdf/ESI_constituents.pdf
Ethibel: Asia/Global/ Américas/Europe	www.ethibel.org/subs_e/4_index/main.html
FTSE 4 Good	www.ftse4good.com
FTSE 4 Good Europe	www2.ftse.com/objects/csv_to_table.jsp;jsessionid=9FF013AFD90A5DD28C-CAB7CA8D90B591?infoCode=4euc&theseFilters=&csvAll=&theseColumns=Myw0LDEy&theseTitles=Constituent,Country,Classification&tableTitle=FTSE4Good%20Europe%20Index%20Constituents&p_
Fundación Ecología y Desarrollo	www.ecodes.org
Good Bankers	www.goodbankers.co.jp
IMUG	www.imug.de
Innovest	www.innovestgroup.com
Jantz S.I.	www.mjra-jsi.com/jsi/about.asp?section=1&level_2=0&level_3=0
KLD	www.kld.com
MJRA	www.mjra-jsi.com
MorningStars Socially Responsible I.I.	www.morningstar.co.jp/sri/index.htm
Oekom	www.oekom.de
PIRC	www.pirc.co.uk
SAM	www.sam-group.com
Scoris	www.scoris.de
SIRI	www.sirigroup.org/members.shtml
SIRIS	www.siris.com.au
Stock at Stake	www.ethibel.org
Triodos	www.triodos.com
Vigeo	www.vigeo.com