

## **The Chance for ethical standards in the context of global economy**

Goethe saw right from the beginning of the industrialization the negative consequences of releasing money or that is to say financial capital from all ethical duties and described this in his Faust II. . . „Papier und Bankgeldschöpfung –so der Ökonom Binswanger-, zusammen mit der Ausbreitung des neuen Eigentumsrechtes, wurden im Lauf des 19.Jhdts. zum Träger der industriellen Revolution bzw. des Wirtschaftswachstums, das sich aus der industriellen Revolution heraus entwickelt hat. Fausts Unternehmen ist zum Weltplan der Wirtschaft geworden. Es ist die moderne Wirtschaft. Auf der Grundlage dieser Feststellung kann man in Abwandlung des bekannten Wortes von Clausewitz, die Politik sei die Fortsetzung des Krieges mit anderen Mitteln, im Sinne Goethes sagen: die moderne Wirtschaft ist die Fortsetzung der Alchemie mit anderen Mitteln [Paper and bank money creation – according to the economist Binswanger – together with the spread of the new property law developed in the course of the 19<sup>th</sup> century into the upholder of the industrial revolution or rather the economic growth that developed from the industrial revolution. Faust's enterprise has become the world plan of

economy. It is the modern economy. On the basis of this conclusion one can say in accordance with Goethe – modifying the well known word by Clausewitz, politics were the continuation of war with other means: Modern economy is the continuation of alchemy with other means].

An economic order came into being where the economic subjects' evaluations and actions are determined by the laws of capital exploitation. Declaring the economic capital as the absolute has consequences, namely an unfair and dirty capitalism that exhausts both the natural and the social capital. In the context of globalization this happens worldwide and can no longer be sufficiently controlled by national governments.

### **The duties of economic ethics**

In view of these results economic ethics are challenged to make the market economy and the capitalist system that accompanies the setting of capital as the absolute fit and capable for the future. In modern age, economic ethics have always taken on this duty, although with quite different means and methods. Two possibilities shall be given as an example: Some tried to take countermeasures to releasing capital from all duties except proliferation by trying to convince industrialists with comprehensible arguments that they should commit themselves, as it were, to taking into account ethical norms in dealing with the natural and social environment in the course of production processes and concerning the produce. Indeed, many of them complied with this. However,

more often than not they found themselves at a disadvantage with their competitors who disregarded such responsibilities. Other philosophers of economic ethics tried to work towards changing the economic conditions with the aid of institutions such as the church or social associations. The concepts of social market economy by Alfred Müller-Armack and Ludwig Erhard serve as the best and most important example for this. Müller-Armack tried to carry out the necessary adjustments until well into the sixties. Today, there is in fact nothing much left of this model. Let alone one expanded the concept towards a social-ecological market economy. There was a time, for instance from the early days of the Federal Republic until far into the sixties, when economical ethics together with lobbying achieved respectable results concerning the influence on the basic conditions. Today it seems, however, that governments are hardly capable of acting as contacts for far-reaching changes should they wish to be re-elected. Just in a situation like this, we are well advised to focus on the civil society and use the influence of civil-societal movements in order to get more ethic into the market.

There is a good chance for this. Sociological insights and also experiences gained by the peace movement, the ecology movement et cetera may encourage us to take action, as – considered from the sociological viewpoint- all realizations, all technological developments, all economic systems, mechanisms and structures are results of social processes in cultures. They may again be changed due to social processes in societies and cultures, if we become aware of the fact that these structures stand in the way of preserving the Creation, of

protecting social harmony and making possible humane living conditions for all people. A possible result of such social processes could be a capitalism that can be reminded of its ethic duty, so that the incarnation in community and harmony with the Creation may come true for all human beings, a capitalism that considers money as social institution, that is shaped by the community and the nation, its value being guaranteed by the work of many. The cultural taming of our unfair and dirty capitalism and its transformation into a capitalism which is fit for the future would come into view as vision and real utopia.

Ethically oriented investors, an ethically interested financial service industry, ethically motivated industrialists eager to learn as well as ecologically and ethically oriented consumers could provide the basis for a broad civil-societal movement and would get the necessary cultural and social processes for the creation of a future-fit capitalism off the ground.

### **Now how can we make this happen?**

The sustained formation of relevant civil-societal groups into social and ecological movements can only succeed if these groups adopt sufficient independent information, if they can rely on a methodically-supported set of criteria based on knowledge and experience to assess capital investments and if there are competent civil-societal institutions in the background.

The project group "Ethical-Ecological Rating" was created against the background of these civil-societal requirements and provided important contributions. The first step to be taken by the project group Ethical-Ecological Rating was the development of a systematic, theory-supported set of criteria. This set of criteria provides a tree of values working on three value-dimensions, namely cultural, social and ecological sustainability. This set of criteria, published as Frankfurt-Hohenheimer guideline, was then recasted as "Corporate Responsibility Rating Concept" by the project group together with the oekom research AG, a competent rating agency. The Corporate Responsibility Rating assesses a company's responsibility for the society and the cultures (=cultural sustainability), moreover its responsibility for the people affected by the company's activities (=social sustainability) and the company's responsibility for the natural environment (=ecological sustainability). That provides ethically motivated investors with the required know-how to be able to invest their money via financial administrators according to ethical criteria. Such a rating or rather such an evaluation assesses the companies individually and also determines their ranking within their branch of industry. Each company participating in the evaluation receives information about its classification for free. Many companies are naturally interested in finding out their competitors' results and why the others might possibly be better than they are. The final report, which the participating companies may purchase, states the detailed reasons why one company gets the top ranking whereas another one only takes the tenth position. The moment this is done an ethical

competition develops within the branches on the basis of the rating in connection with the ranking of the branches. And this is exactly the intention of this economic-ethical approach. By using the means of the market, namely competition, this approach tries to involve ethic into the capital market and influence money transactions by ethical viewpoints. On the capital market this has already succeeded to a considerable extent. Right now, already more than 1 Billion EURO in Germany and Austria are administered by means of Corporate Responsibility Rating. So far, 800 international large concerns in 25 branches were evaluated. In addition, 200 medium-sized and smaller companies, that proved to be ecological pioneers as concerns their products and production processes. With this, we have an investment universe rated according to the Frankfurt-Hohenheimer guideline which is sufficient for any possible creation of portfolios and can also be handled very well, as experience with bonds societies has shown.

### **Rating of 30 OECD countries**

To offer ethically oriented consumers a wider investment spectrum particularly in the field of fixed-interest investments, we developed a country-rating with the help of which all government bonds on the market can be assessed according to criteria from the social and ecological field on the basis of the

Frankfurt-Hohenheimer guideline. So far a country-rating of the 30 OECD countries and Russia is available.

Such a rating can be compared to a photograph that might show a completely different picture only a little later. It is therefore necessary to update the results of the evaluation, to re-examine them regularly or on special occasions. Therefore, the oekom research AG makes yearly updates and, should companies show grave changes in their conduct, its clients will be informed monthly.

So there is the know-how for a very transparent form of ethical investments. Furthermore, the oekom research AG offers its clients the opportunity to select from a wealth of negative and positive criteria to develop an individual approach. This has the advantage that the investor can individually create his portfolio. The disadvantage is, however, that the investor is forced to have a critical look at the criteria, which is more time consuming. Each investor will surely find the investment concept that matches his individual preference.

### **Concerning the quality of sustainability ratings**

More and more often, we read in the printed media about business scandals, faked balances and other attempted deceptions, which confuse investors and make share prices reach rock-bottom. Rating agencies and analysts also get themselves talked about. Therefore the question arises in which way confidence and credibility on the stock market can

be re-established. One condition is the orientation of all participants towards ethical principles. Here, the project group "Ethical-Ecological Rating" of the University of Frankfurt developed quality standards for sustainability ratings together with the oekom research AG and the Rating Cert e.V. These standards include, e.g. that a rating agency relies on a differentiated and transparent set of criteria. There must not be any conflict of interests nor capital entanglements between the agency and the evaluated companies. Furthermore, rating agency and asset management must be institutionally and economically separated. Neither are rating agencies allowed to entertain any commercial consultancy relations with the companies evaluated or to be evaluated by them, as this might imply a certain interest for a higher ranking. Whether our market economy is fit for the future will not least depend on winning back the trust in the economy and the stock market by means of trustworthy ratings.

This procedure not only offers the investor a transparent opportunity to make ethical-ecological investment decisions. Rather his decision according to the "best-in-class" system shows ethical-ecological effects on the economical development in general, as this test procedure triggers an ethical competition both within and between the branches. That accommodates an ethically oriented investor very well, as he not only pursues his individual interests and has a clear conscience, but also triggers economical developments which produce ethical-ecological innovations on a larger scale and therefore result in changes on the capital market towards a more ethical performance.

Due to the establishment of ethical competition within the branches – an economic means, after all- companies are given the opportunity to become consciously aware of their responsibility for people and environment in their own country and in other cultures. Those who are orientated towards criteria of sustainability, who run their companies in an ecological, social and cultural acceptable way will be the ones to distinguish themselves as suitable investment candidates in this competition.

### **Transparency and objectivity in rating agencies**

The ethical ecological research and rating agencies provide a remarkably important interface for a well-functioning ethical competition. Unfortunately, this is exactly where we see not only positive developments but also considerable flaws. A poll carried out by the Deutsche Aktieninstitut e.V. [a German shares institute association] and the Institut für Ökologie und Unternehmensführung [institute for ecology and management] at the European Business School e.V. in May 2003 revealed that [those enterprises in Germany with a quotation on the stock exchange have an attitude towards sustained investments on the market which is characterized by a combination of openness and uncertainty...they especially criticized the lack of transparency as regards the criteria and methods for evaluating the sustainability performance of enterprises]

The way the questioned enterprises perceived rating agencies corresponds to the results from a survey made by Franziska Jahn on behalf of the project group Ethical-Ecological Rating in Frankfurt this year. There is a rather long list of inquiries to the ethical ecological research institutes resulting from that. Data protection is already the first item to mention. Furthermore, [ it became clear that the ideas concerning the judgement quality of analysts differed considerably]. As regards the evaluation procedure [only 40 % stated that they have a standardized research procedure, only 26 % of the agencies considered a systematic media research in view of the highest possible objectivity as important and another 20 % claim that a precise evaluation handbook is the key to objectivity]

The results concerning the question of criteria are downright alarming. 66 % of the agencies questioned did state that they are based on an acknowledged guideline, however only 33 % made it available to the study, [13 % did not answer the question at all and another 21 % are not based on a declaration of any kind...] Only 47 % of the interviewees draw up rankings within the branches after screening and evaluating the enterprises]

Ranking the companies within their branch is of prime importance, however, when it comes to developing an ethical competition within and between the branches. When investors or the financial service industry rely on rating agencies in order to decide about their investments, a prior quality check is

indicated to avoid mistakes when selecting and looking for ethically-ecologically sustained products.

### **Formation of ethically oriented investors**

If these effects are supposed to last, the acquired know-how must be kept up-to-date and has to be used by investors on a broad scale. No investor can possibly do the required research and organize the necessary continuous controlling on his own. Therefore the association of ethically oriented investors was founded in Frankfurt. It is called "Corporate Responsibility Interface Center" (CRIC). Its name is meant to give an international signal that the association considers itself as interface of ethically oriented institutional and private investors, that wishes to serve its investor-members as forum for exchange of information, but also wants to provide academic accompanying research, press and public relations work and international linking-up with other investor associations. It offers a newsletter and makes reduced access to the necessary evaluations possible for its members. This is on condition that as many ethically oriented investors in the German-speaking region as possible form a high-powered civil-societal group under the umbrella of this association, that they act on the capital market with a rating agency as competent civil-societal institution alongside and ensure gradual changes of the normal conditions towards a better cultural, social and ecological acceptability of the economy.

### **Notes on Sources**

**Page 1**

"Papier und Bankgeldschöpfung... " is quoted from

Hans Christoph Binswanger, *Geld und Magie*, Stuttgart/Wien/Bern 1985, p.56

**Page 3**

Johannes Hoffmann, Konrad Ott, Gerhard Scherhorn Ed. *Ethische Kriterien zur Bewertung von Unternehmen. Frankfurt-Hohenheimer Leitfaden* Frankfurt (IKO-Verlag) 1997

**Page 7**

"die börsennotierten Unternehmen ... "is quoted from

Nachhaltigkeit und Shareholder Value aus der Sicht börsennotierter Unternehmen. Ergebnisse einer Umfrage des Deutschen Aktieninstituts e.V. und des Instituts für Ökologie und Unternehmensführung an der European Business School e.V.

Rüdiger von Rosen Ed. *Studien des Deutschen Aktieninstituts*, No 22, Frankfurt am Main, Mai 2003, p.9

"ließen sich stark differierende Vorstellungen..." is quoted from

Franziska Jahn, *Zur Qualität von Nachhaltigkeitsratings. Zwischen Anspruch und Wirklichkeit*, typed version, Frankfurt, 30.7.03, p.142

"gaben nur 40 % an..." is quoted from

Ibidem, p.149

"13 % beantworteten die Frage gar nicht..." is quoted from

Ibid, p.161

Summary

An economic order came into being where the economic subjects' evaluations and actions are determined by the laws of capital exploitation. Declaring the economic capital as the absolute has consequences, namely an unfair and dirty capitalism that exhausts both the natural and the social capital.

In the context of globalization this happens worldwide and can no longer be sufficiently controlled by national governments. Just in a situation like this, we are well advised to focus on the civil society and use the influence of civil-societal movements in order to get more ethic into the market. There ist a good chance for this. Ethically oriented investors and consumers could provide the basis for a broad civil-societal movement and would get the necessary cultural and social processes for the creation of a future-fit capitalism off the ground.

About the Author:

Born 1937 in Germany, studied theology, economy and psychology at the Universities of Münster, Bonn, München und Saabrücken; from 1974 to 1976 Professor for Moral Education at the Highschool for pedagogics at Münster; since 1976 Professor for Moral Theology and Social Ethics at University of Frankfurt; Chairman of the interdisciplinary projectgroup Ethical and Ecological Rating at the University of Frankfurt; Chairman of the advisory board of oekom research AG Munich; Chairman of the advisory board of the Umweltbank Nürnberg

Keywords:

- ethical-ecological Rating;
- natural, social ans cultural sustainability;
- formation of civil society;
- quality standards for ethical and ecological Rating agencies
- best in class rating
- country rating
- rating of companies