

Project group Ethical-Ecological Rating / oekom research AG (Ed.)

Ethical-Ecological Rating

The Frankfurt-Hohenheim Guidelines and their implementation via the Corporate  
Responsibility Rating

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## Preface

The project team 'Ethical-Ecological Rating' has developed a set of criteria for the ethical assessment of enterprises, the 'Frankfurt-Hohenheim Guidelines' (FHG). The criteria aim to analyse the dimensions of environmental, social and cultural sustainability of companies and products. The FHG is often referred to as the world's most comprehensive set of criteria for the ethical assessment of companies.

In order to transfer the FHG into an applicable system, the project team and oekom research AG, a well-established and recognised Munich-based rating agency, entered into a co-operation and developed the so-called 'Corporate Responsibility Rating'. Until now, 1,000 enterprises from over 25 sectors have been assessed. Apart from that, oekom research has converted the criteria of the FHG into a 'Country Rating' and has analysed all countries of the OECD and Russia so far.

The Corporate Responsibility Rating represents the first rating that implements the criteria of the FHG in a very comprehensive way. It parallels traditional financial rating and allows institutional and private investors to align their asset management with ethical criteria.

With the FHG and the Corporate Responsibility Rating we wish to make a contribution to the idea of ethical-ecological investment. It seems as if our activities sink in already: September 2000 saw the foundation of the 'Corporate Responsibility Interface Centre' (CRIC e.V.), an association for ethical-orientated investors. On the one hand, this association represents a platform to support ethical investment in general and, on the other hand, to offer specific support to investors who wish to integrate ethical criteria in their capital investment.

The first edition of this book was published in September 2000. Dynamic developments in the market, the implementation of the Corporate Responsibility Rating, as well as intercultural research linked to the FHG and the rating system resulted in changes that seemed to make a new edition of the publication in hand inevitable.

Frankfurt am Main, Germany, December 2002  
Johannes Hoffmann and Gerhard Scherhorn

## Formation and development of the project team 'Ethical-Ecological Rating' Claudia Döpfner and Johannes Hoffmann

### 1. Previous history

Back in 1991, three bank managers approached social-ethics professor Dr. Johannes Hoffmann of the Catholic Theology department at Johann Wolfgang Goethe University in Frankfurt. They inquired about a possible conference dealing with the issue if and how it would be possible to make profits on the money market while having a 'clear conscience'; i.e. decisions should be made on the basis of ethical criteria. These considerations based upon the fact that, on the one hand, ethically motivated investors faced these issues. While on the other hand institutional investors such as dioceses and holy orders invested their money via commercial banks without having a clue what happened with it, e.g. were profits generated from the armaments industry or from, hopefully, social institutions?

The conference took place from the 22<sup>nd</sup> to the 24<sup>th</sup> March 1991 in the Evangelische Akademie Bad Boll (Protestant Academy in Bad Boll) under the headline 'Clean profits. Ethical investments in dialogue.' 84 participants representing the most different areas attended the conference, yet they shared their interest in the topic. Representatives of regional banks, commercial banks, alternative credit institutions, ecclesiastical banks, financial advisors, journalists, political representatives, ecclesiastical and development-aid basis groups. Aside from the exchange of experiences, fundamental questions concerning ethical-ecological investments were put up for discussion. The development of a subtly differentiated ethical-ecological set of criteria was considered the central challenge for a faster and at the same time reputable accomplishment of ethical-ecological aspects on the capital market. This opinion was shared by all participants; since, for the 'nation of poets and philosophers' influenced by the Kantian way of thinking, it seems inappropriate to apply the so-called knockout criteria only, which have actually been used effectively on the American market since the Vietnam war.

Against this background, Johannes Hoffmann was asked to form a project team performing the task of working out a subtly differentiated set of criteria, based on theory and method, in order to assess enterprises and capital investments.

### 2. Formation of the project group 'Ethical-Ecological Rating'

Right after the conference in Bad Boll, Prof. Dr. Johannes Hoffmann and Prof. Dr. Gerhard Scherhorn held their first exchange of views. It became clear that a co-operation was in mutual interest. This became possible when the formation of the project team 'Ethical-Ecological Rating' came in sight.

Within the framework of the interdisciplinary project 'technical research', Johannes Hoffmann applied for a research sponsorship in 1992 by the State of Hesse for the formation of the project group on 10<sup>th</sup> September 1991.

In his application he set forth:

'... In a pluralistic society we encounter quite a number of different ethical objectives, basically as many objectives as there are investors who want to invest ethically. Consequently, it must be possible to identify ethical investments as such. Therefore, we have to set up criteria that are applicable.

So far, there are no ethical rating agencies in Germany, only some in England and the USA. On the one hand, the existing American and British rating agencies should therefore be checked for the valency and safety of their ethical criteria, on the other hand, we have to develop our own criteria that fit the European market. Finally it remains to be analysed whether the introduction of ethical investments can only be realised via rating agencies or if

ethical assessment criteria could also be integrated in the ratings of traditional agencies. The answer to this question is of vital importance in view of the acceptance of technologies in industry and commerce.'

The application was granted; it was the starting point for the formation of the interdisciplinary project team 'Ethical-Ecological Rating', brought into being by Prof. Dr. Gerhard Scherhorn, consumer-affairs economist at the Hohenheim University, and Prof. Dr. Johannes Hoffmann, and also supported by private donations. Apart from the two professors Johannes Hoffmann and Gerhard Scherhorn the following contributors participated in the project group: Dr. Bernd-Christian Balz, Bielefeld, investment advisor for the Deutsche Bank; Claudia Döpfner (since 1997), M.A., Frankfurt, assistant at the field of social and economic ethics; Dr. Peter Griebel, Stuttgart, referee for financial services for the consumer advice centre Baden-Württemberg e.V.; Dr. Claus F. Lücker, Krefeld, priest; Prof. Dr. Konrad Ott, Professor of environmental ethics at the University of Greifswald; Dr. Lucia A. Reisch, Stuttgart, consumer-affairs economist at the Hohenheim University and Dipl. Hdl. Dr. Hans-Albert Schneider, Frankfurt. Today, also the following contributors are part of our project group: Klaus Rainer Forthmann, München, NABU Bayern (since 1999), Robert Haßler, München, oekom research AG (since 1999), Thomas Schardt, Frankfurt, OFM (since 1999); Franziska Jahn, Frankfurt, Student; and Simeon Ries, MBA, studying for a doctorate with Prof. Hoffmann.

### 3. Public colloquiums

In order to get into touch with potential interested parties and also to check the validity of our theoretical reflections with economic experts, we regularly held public colloquiums with lectures and discussions. On these occasions we asked experts from the investment sector, from enterprises, banks, research institutes and rating agencies to report from their working fields, so we could learn from their experiences. We also presented our progressing knowledge and held discussions with our guests from banks, enterprises, ecclesiastical organisations, environmental institutions, citizens' initiatives, universities and colleges.

Approximately 70 – 100 interested persons took part in each of our colloquiums which proves that our events met with wide acclaim.

### 4. Meetings of the project team and the presentation of the first version of the Frankfurt-Hohenheim Guidelines (FHG)

After six all-day meetings that took place from 1994 until the end of 1995, we worked out the concept for a set of criteria to assess enterprises, capital investments and financial products. Many attendants witnessed our presentation of the first version of the guidelines on February 23<sup>rd</sup>, 1996 at the Johann Wolfgang Goethe University in Frankfurt. Among the visitors were representatives from banks, credit institutions, employers' associations, rating agencies, environmental institutions, from churches and ecclesiastical institutions such as Caritas and Misereor.

We identified the following results to work on:

The basic concept of the guidelines with the three dimensions environmental, social and cultural sustainability proves right. The explicit inclusion of the dimension 'cultural sustainability' is vitally important for the transference to different social and economical contexts. It emphasises the fact that technical and economical processes and innovations are social processes; they are controllable by the arrangements that a culture developed. These facts remain widely unknown so far; in the interests of the ethical penetration of economic processes, 'culture' and its potential of cultural arrangement should be emphasised and mobilised. We are not at the mercy of the normative power of factual, economic, financial or technical developments. There is indeed also a normative power of a

culture's normative knowledge, which enables us to control economic processes that achieve and guarantee ecological and social acceptability.

The criteria are still incomplete and unfinished but already rather complex, which raises the question of manageability and user friendliness. Despite this fact the project team believes in its workability due to the following reasons: First, the set of criteria aims at the negotiation with ethically orientated investors on the one hand and ethically orientated enterprises on the other hand. Although both groups share a similar fundamental philosophy, they differ in view of their individual concrete preference of values. This is exactly where the guideline serves as instrument of negotiation e.g. for the investment advisor. The guidelines and its range of possible value preferences help him to make the process of negotiation more transparent. Finally, the investor will come to a decision on the basis of a few criteria, maybe 5 – 10, only. However, he gets to know the whole range of criteria in the course of the negotiation process. He develops an attitude towards them, thinks about them and therefore also changes his own set of values. Transferred to society as a whole this leads to a gradual, step-by-step change in the prevailing value preferences. Thereby, economic processes will be increasingly penetrated by ethical decisions. Eventually this is also for the benefit of the economy, as its acceptance is then based on an ethical consensus.

Even if the investor's evaluation process is finally reduced to a few criteria that lead to his decision, the process helps to avoid decisions based on knockout criteria only. The negotiating partners will achieve a high standard of ethical transparency as well as a higher degree of mutual respect, fairness and moral responsibility.

## 5. Revised version and public presentation of the guidelines

In September 1996, the 'Deutsche Bundesstiftung Umwelt' (German Federal Foundation for the Environment) granted an application for sponsorship. In line with the suggestions from the presentation we first of all revised our set of criteria in three successive conferences. The next three conferences were dedicated to a vade-mecum to the guidelines. Besides we dealt with further contributions that were to be published in one edition together with the set of criteria. These comprised articles about:

- Cultural sustainability
- Theory and method of the value-tree analysis
- Requirements for the organisation of a rating agency
- Questions of assessment
- How to translate it into action

We were finally able to present the final version of the guidelines at the symposium on September 10<sup>th</sup>, 1997. Soon after the presentation we realised that we did not want to cease after having set up a theoretical set of criteria, but wanted to proceed to make the guidelines applicable for the market. Primarily we dealt with the question of converting the dimension 'cultural sustainability'.

## 6. The implementation of the Frankfurt-Hohenheim Guidelines

The considerations and discussions emphasised that the project team also would have to take care of the transference of the Frankfurt-Hohenheimer Guidelines, if the guidelines were to be used for implementing sustainability in everyday economic life. In view of this goal, two preconditions gradually took shape during our discussions in 1997 and 1998:

On the one hand, the co-operation with a rating agency operating on the market seemed essential

On the other hand we became increasingly aware of the necessity to convince ethically motivated institutional investors to use ethical-ecological ratings, in order to gain their co-operation concerning the transference of the guideline.

For various reasons the project team came to a co-operation with the oekom research AG during the pilot phase. The necessary knock-on financing was provided by the Franciscan order, some participants of the conference 'Alternative Investment', and the German Catholic Council of Mission. Some holy orders were ready to open up their portfolios, on the basis of which the pilot study could be realised. On December 10<sup>th</sup>, 1999, a contract between the project team and the rating agency oekom research AG was concluded and signed.

After some preparatory work the concept of the 'Corporate Responsibility Rating' passed the meeting of January 14<sup>th</sup>, 2000, and the questionnaire of oekom research with nearly 30 pages was set up. The results of the pilot study, including the CRR of 200 international enterprises from the industries retail, automobile, banking and finance, media, food and beverages as well as oil and gas were presented to the public in September 2000.

The FHG and the Corporate Responsibility Rating were customised for a specific cultural background. At first, the criteria of the FHG referred only to the German-speaking countries, and therefore to a specific socio-economical and cultural context.

But, since international enterprises need to consider indigenous cultural values when doing business in other countries, it became clear that a dialogue with representatives of other cultures was necessary, if the FHG should be applicable on an international basis. Which, in the light of globalisation and internationalisation of the financial markets, seemed inevitable. The dialogue aimed to seek out different understandings of the term 'Sustainability' and to identify possible ways of putting sustainability into practice in different societal contexts and markets.

To start the discourse the project team organised a symposium under the headline: 'Intercultural comparability of the ethical assessment of enterprises to criteria of cultural, social and environmental responsibility.' (1) The symposium was held from 23<sup>rd</sup> to 25<sup>th</sup> November 2000 at the German Development Bank in Frankfurt. 17 experts from different cultures were asked for a statement (2) on the FHG and on the CRR concept in order to get first opinions on the intercultural applicability of the FHG and CRR. The results of the symposium were published in September 2001:

Lucia A. Reisch (Ed.), Ethical-Ecological Investment: Towards Global Sustainable Development, Frankfurt a.M. / London 2001: Reihe Ethik – Gesellschaft – Wirtschaft, Band 12, Band 12, Frankfurt: IKO Verlag für Interkulturelle Kommunikation.

Apart from that, the project team is busy with collecting, analysing and assessing different ecological and ethical rating concepts (rating of the ratings), since the ever increasing number of rating providers lowers the level of transparency in the market.

In consequence of the dynamic market development, oekom research and the project team are permanently working on advancing the FHG and the CRR. When doing this, the co-operating partners have to ensure that the criteria do not lose any of its basic contents. In fact, the adaptation has to focus on streamlining the basic principles of the FHG and CRR.

In addition, the project team initiated the foundation of the 'Corporate Responsibility Interface Center' (CRIC e.V.), an association for ethical orientated private and institutional investors. CRIC was founded in September 2000 and serves as a catalyst for ethical investment in general and as a forum for investors that wish to integrate ethical criteria in their asset management. The association's goal is to build up cultural pressure that enforces a shift of investments towards ethical ecological innovations. If single investors bundle their demands for ethical ecological ratings and perform in conjunction with a rating agency as a qualified

institution ensuring continuous transparency with regard to the ethical dimension of financial products, then ethical investment will have a tremendous effect on the conventional financial market. Ethical investment will longer represent an alternative niche market, but will result in a shift of capital on the basis of moral motivations by means of intrinsic economic instruments.

The efforts yield fruit already: Numerous investment companies wish to launch financial products that are based on the FHG and the Corporate Responsibility Rating. A couple of segregated accounts and mutual funds exist already.

Furthermore, January 2001 saw the foundation of a forum for sustainable investment (FNG – Forum Nachhaltige Geldanlagen) in Berlin, as follow-on to the similar initiatives in the USA, Great Britain and some other countries. The FNG is an association of financial service providers supporting the improvement of the general conditions for ethical investment. As a partner of the European Social Investment Forum (EuroSIF) the FNG is active on a European level: Associations like CRIC, FNG and EuroSIF produce an enormous thrust and can create a step-by-step changing in the economical and monetary structures on the capital market.

Annotations:

1 The symposium has been carried out in co-operation with Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Co-operation and Development), Theologie Interkulturell am Fachbereich Kath. Theologie der Universität Frankfurt (Intercultural Theology at the Department of Catholic Theology, University of Frankfurt), Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation), Kath. Akademie Rabanus Maurus (Catholic Academy Rabanus Maurus), Missio and Misereor

2 See publication: Project team 'Ethical-Ecological Rating' (Ed.), Intercultural comparability of the ethical assessment of enterprises according to criteria of cultural, social and environmental responsibility, Essays presented to the symposium: 23<sup>th</sup>-25<sup>th</sup> November 2000. Schriftenreihe zur ökologischen Kommunikation, Band 8, ökom Verlag, Munich 2000.



## The Frankfurt-Hohenheim Guidelines (3)

Bernd-Christian Balz, Claudia Döpfner, Klaus Rainer Forthmann, Peter Griebel, Johannes Hoffmann, Claus F. Lücker, Konrad Ott, Lucia A. Reisch, Thomas Schardt, Gerhard Scherhorn, Hans-Albert Schneider

### 1. Introduction

The Frankfurt-Hohenheim Guidelines for the ethical assessment of companies have been developed within the framework of an interdisciplinary project. The project was conducted under the supervision of Prof. Dr. Johannes Hoffmann, former Professor of social ethics at the department of Roman Catholic theology at the Johann Wolfgang Goethe University in Frankfurt; Prof. Dr. Konrad Ott, Professor of environmental ethics at the University of Greifswald; and Prof. Dr. Gerhard Scherhorn, consumer-affairs economist at the Hohenheim University in Stuttgart. Permanent members were Pfr. Dipl.-Theol. Claus F. Lücker (Frankfurt); Dr. oec. Lucia Reisch (Stuttgart); as well as three additional economists, all of whom have written their theses specifically on the subject of the ethical foundations of investments: Dipl.-Kfm. Bernd-Chr. Balz (Frankfurt); Dipl. oec. Peter Griebel (Stuttgart); and Dipl.-Hdl. Hans-Albert Schneider (Frankfurt); and Claudia Döpfner, MA., Assistant to the field of social and economic ethics (Frankfurt). The criteria presented here are still somewhat of an outline. It has not been elaborated completely in every respect, but rather to different degrees at various levels. Some overlapping and repetitions also remain. Experience will have to show whether or not these can be entirely eliminated. We have attempted to develop the outline to the point where its practical applicability for ethical-ecological rating is discernible. Further testing and advancing will have to take place in practice. The concrete application will always be selective, for it is never the case that more than a selection of the assessment criteria is relevant for any given evaluator and the company under consideration.

### 2. The initial thesis

Technological developments, economic systems, and monetary structures do not drop down from heaven. They are neither perfect nor incapable of being influenced but are rather results of social processes within a culture. Culture is indeed changed by them and yet at the same time the respective culture has the capability, by virtue of the moral understanding inherent in it, to change the present state of economic and technological developments, if this state of affairs is experienced as destructive and if the natural and social foundations of life appear to be endangered by it.

There is increasing cognisance of the fact that the current form of economic growth is no longer of service to the public welfare or to the preservation of the natural environment, but has become an end in itself - one that primarily serves the purpose of increasing monetary wealth, tending at the same time - properly calculated - to reduce prosperity rather than to raise it (Scherhorn et. al. 1997). This is true on a national, a European, as well as on a global scale. Hence there is a growing awareness that all the powers in society will have to be mobilised in order to produce the cultural pressure necessary to enable the social market economy to mediate between liberalism and socialism, competition and solidarity, and between economy and ecology.

It is certainly not possible to bring about a fundamental change in our economic system overnight. But funds could be directed into channels that lead to gradual changes in the everyday world in the direction of encouraging innovations that are socially, environmentally and culturally compatible, thus helping to curb the destructive potentials of our economic system. Up to now the major rating agencies - e.g. Standard & Poor's, Moody, Euro-Ratings - have based their assessments of companies and company stocks on criteria such as 'financial standing', 'profitability', 'transaction costs', 'validity periods', and 'tax considerations'. In the meantime,

however, interest - resulting from cultural pressure and social movements - in investing money in accordance with ethical criteria has grown. A growing number of investors are adopting the viewpoint that property entails responsibility (Roche, Hoffmann, Homolka 1992).

This tendency has received additional impetus from the growing conviction that in the long run only ethically 'clean' companies will be able to succeed on the market, and will also yield higher returns than other investments - if for no other reason than the anticipation by these companies of future regulations. Sufficient reason is provided for this supposition alone by the fact that future statutory regulations will not affect these companies. Investors who so think are supported by studies that have been able to show that on average ethical investments have led to higher yields than the usual type of investments. This was already shown to be the case for the U.S. market in the context of the stock market crash of 1987; in contrast to all conventional investment funds, none of the ethical investment funds suffered any losses.

Studies of the capital market in Germany have shown that the financial results of ethical or ecological investment funds are completely on a par with those of their competitors. For the time period from April 1997 to April 1998, for example, it could be shown that the NAI-Index (which consists of 20 ecological rated stocks) could compete with the development of the MSCI (an Index, which reflects the growth of the world wide stock index). This is as valid to US stock market. The examination of individual ethical or ecological investment funds showed results that in some cases were better than traditional investment funds. 'The results of a large-scale study conducted by the (American) Social Investment Forum have far exceeded all expectations. Ethical investments experienced their big upswing in the 1980s, with the world wide observance of the boycott of South Africa on the part of both consumers and investors. Over 90 percent of the funds managed in accordance with ethical criteria made use of three or more criteria. Thus positive criteria, which provide companies with a greater motivation to make improvements, are rapidly increasing nowadays in ethically managed portfolios' (Centre-Info News, Nov. 1995, p. 2) (4).

Opting in favour of such criteria can have considerable consequences. With the help of an ethical rating, for example, small and medium-size companies in particular can be provided with an incentive to develop and implement technological innovations that on the basis of short-term economic criteria would be doomed from the start. This would provide considerable impetus for the movement of entrepreneurial development in an ecologically oriented direction, as well as for the safeguarding of the environment. Given the necessary investment capital smaller and medium-sized companies in particular possess both the requisite creative potential and the flexibility to blaze new trails for a lasting change of direction in the development of products, production methods, and services. It can be expected that in the future they also will be more strongly represented on the stock market in Germany. In general we anticipate a development on the capital markets in which investment decisions will be subjected more strongly to ethical criteria than has previously been the case. We presume further that for investments of this kind there is a market segment with a growing demand to which the supplier side (banks, investment companies) has so far reacted inadequately. And we for our part want to contribute to the realisation of this prognosis. For it is a primary interest of ours to bring the influence of moral reasoning to bear on the movements of capital in order to focus normative moral understanding, such as that reflected in the ecological movement, and make it fruitful for the structuring of socio-economic life and for cultural development. Greater significance must accrue to moral communication within the context of the economic system.

Business ethics is one of the areas in which strategic rationality crosses paths with ethical reason (Kersting 1994). For this reason companies can be expected to develop strategies by means of which they attempt to make themselves attractive for ethical-ecological investments. But the moral pressure on companies to conduct themselves in accordance with moral considerations for strategic reasons, or to at least maintain the appearance of morality, does not have to be seen in a negative light, for whoever starts to become involved in ethics cannot remain unaffected by such involvement.

From the standpoint of moral philosophy, ethical investments are actions that are not strictly obligatory, nor are they supererogatory. They can perhaps best be characterised as incomplete duties in Kant's sense, i.e. duties that allow for a certain amount of latitude with respect to their observance. The practice of 'adding in' ethical investments to the total amount of capital invested is an indication of the fact that ethical investments are viewed by many as an incomplete moral duty. Most people will no doubt hardly have any conscience pangs about not investing all their monetary assets 'ethically'.

It is therefore a question of providing the project of ethical investments with an appropriate theoretical foundation without thereby introducing ethical or economic premises that are debated even among adherents of ethical-ecological ratings. Guidelines for the ethical evaluation of companies do indeed give rise to challenging moral philosophical questions, but they should not be burdened with unnecessary theoretical ballast.

### 3. The value tree

For the elaboration of our criteria we have adopted the value-tree analysis (= VTA) developed by Ortwin Renn. The objective of this method is to provide a stronger emphasis of moral or evaluative (axiological) components against the predominance of technical or economic criteria (efficiency, profitability). The VTA method originated from the rational-choice theory with respect to collective decision making; it goes quite a bit further than conventional cost-benefit analysis (CBA), however. 'Value pluralism' is presupposed as a given social reality. All social groups are intended to be included in the VTA. The VTA defines values as preferences or 'concepts of what is desirable'. They can also be understood as 'criteria' or as 'thematic perspectives'. This is not a mutually exclusive alternative. Values are relevant decision-making factors. 'Values are the dimensions for judging (...) the degree of desirability of particular alternative courses of action' (Keeney, et al. 1984, p. 19). Criteria are the parameters of judgement that are intended to make possible an evaluative choice from a number of options. The options are realisable but mutually exclusive. There are any number of ethically defensible investments, but money cannot be invested everywhere at the same time.

Our value tree for the ethical evaluation of companies comprises three main criteria, or dimensions, which constitute the three main branches of the value tree. These are:

1. Cultural sustainability
2. Social sustainability
3. Environmental sustainability

We have included the dimension 'Cultural Sustainability' because the moral understanding inherent in cultures plays an important role in the development and realisation of environmentally and socially compatible products and methods of production, as well as innovations and technological developments. The capacity of a society for solving the social and economic problems that emerge in it depends to a decisive degree on the moral understanding at its disposal, i.e. on the basic stock of its tradition and conscience, as it were, which can be mobilised for problem solving. The factual power of the normative wisdom possessed by the various cultures can be put to conscious use for the regulation of the normative power in existing processes in science, economic life and technology, for interactions take place between all three dimensions. For this reason the dimension of cultural sustainability seems essential to a set of criteria, even though the explication of this dimension creates certain difficulties for the elaboration of a value-tree analysis.

The logical construction of the value tree for ethical-ecological rating is arranged as follows: the first three levels contain the normative structuring concepts, whereas the subsequent levels lead to the corresponding evaluations. This arrangement ensures that all items conceivably relevant for one seeking advice, i.e. a financier or investor, are included in the evaluation. What items actually become objects of evaluation depends on the information

requirements of the party that either carries out or commissions the evaluation. The first three levels are as follows:

First level: the fundamental evaluative dimensions (cultural, social, and environmental sustainability)

Second level: the spheres of action within a dimension

Third level: the various objects for evaluation within a sphere of action

Hereupon follow the levels, which lead to the corresponding evaluation of individual actions. Evaluative statements first occur at the respectively last level. The following is an example from the dimension of social compatibility taken from the sphere of action 'Internal interest groups with special interests', and within this sphere of action the evaluation object 'Women'. One of the actions that can be evaluated here is the proportion of women in leading positions. In order to evaluate this, the size of the proportion has to be determined, and whether or not appropriate measures have been taken in order to enlarge it. This necessitates a considerable number of queries about individual measures.

The various individual queries concerning a single specific action - in this case the intensity of the effort to optimise the proportion of women in leading positions - have to be compiled in one evaluation. This requires decisions on the relative importance accorded to each action, which in the last analysis can only be made by the party for whom the evaluation is being carried out. 'K.O.-criteria' can be laid down, for example, i.e. ones that must be complied with by a company in order for it to be taken into consideration for a morally defensible investment, and whose non-compliance entails exclusion from consideration. The party commissioning the study can stipulate which areas and actions are of greater importance for it and which are of less importance.

This does not mean that within the framework of an ethical-ecological evaluation the criteria applied can be chosen entirely at will. The decision, for example, to consider the proportion of women in leading positions as irrelevant and to exclude this item from the evaluation would have to be justifiable in ethical terms. If in some particular case it is not, then the pretension to an ethical-ecological rating cannot be substantiated. Hence the rating agency bears a joint responsibility for the determination of the relative importance of the various items. Competition among the agencies for reputation and credibility should lead in practice to a convergence of emphasis on the various points in question.

In the outline presented here the attempt has been made to elaborate a catalogue of criteria that meets the requirements for an ethical-ecological rating scheme. This means first of all defining the questions to be put to companies from an ethical-ecological standpoint. Of course this does not mean that this is the only perspective for the evaluation of a company by a potential investor. Profit and risks do not become negligible considerations with the addition of ethical criteria. Hence in rating praxis a solution has to be found not only to the problem of how the various individual evaluations are to be integrated into an overall judgement on the ethical-ecological quality of a company. Ways will also have to be found for weighing this conclusion over against the composite result of the economic rating and, where possible, for combining the two into a single evaluative figure.

The guidelines are directed at various user groups:

Private and institutional investors, who can identify and select from the guidelines the items that in the course of the ethical-ecological examination of a company are to be looked into either by themselves or by a rating agency;

Rating agencies that evaluate a company for an investor, for other types of clients, or for their own purposes;

Financiers and financial brokers;

Banks, investment consultancies, insurance companies;

Companies and business consultancies which, by means of these guidelines, are enabled to undertake a (self-) examination on an ethical-ecological basis;  
Interest groups (e.g. employees of a company, unions, citizens' action committees).

#### 4. The set-up of the Guidelines

Neither the set-up of the Guidelines nor the specification of individual criteria has been inspired by any particular ideology. On the contrary: the catalogue of criteria presented here constitutes the most comprehensive enumeration possible of potential factors and questions for the examination of a company from ethical-ecological perspectives. In compiling this list of criteria it was left out of consideration whether - and if so, how easily - information and data on any given point could be obtained. It is therefore quite possible that collecting data for certain criteria could involve an elaborate search.

The sequence of the criteria is value-free. Furthermore neither the number of subordinate points under a criterion nor the extent of the respective elaborations constitutes a valuation of any criterion in question. Conversely, subordinate points are not therefore of less significance for reason of being subsumed under higher levels.

The inclusion of any item as a criterion simply means that, from the point of view of the authors, it could be of relevance for a company examination. Thus the criteria are to be understood as pointers and not as mandatory factors.

##### 4.1 An example of application

In order to illustrate the application of the guidelines, a fictitious example has been chosen. In this example a female investor makes use of the guidelines presented here in order to select the criteria that have relevance for her. By means of these criteria a company examination is to be carried out by a rating agency. It should be noted that this example serves solely as an application aid and that in the last analysis each user has to decide independently on the criteria to be used in an examination.

For the imaginary female investor in our example the following factors are of primary importance:

1. Treatment of minorities in the company;
2. Relations of the company with foreign countries;
3. Production of goods with the highest possible degree of environmental compatibility

In order to concretise these points and view them in a more differentiated manner this investor can find potential examination items in the appropriate places in the guidelines. The point to be examined must first of all be subsumed under a main category, i.e. either '1. Environmental sustainability' or '2. Social sustainability'.

Concerning 1.: The item 'minorities in the company' belongs under area 'Social sustainability'. Here, under 'Internal interest groups', various subsets of the concept 'minorities' can be found, with corresponding points of inquiry. Given a broad interpretation of 'minorities', all the criteria from connected with individual interest groups could be relevant. Our fictitious investor can of course concentrate on just the criteria for the treatment of certain minorities, e.g. 'Foreign employees', or 'Handicapped employees'. Thus the user must select for herself which of these factors she considers relevant, whereby the set of criteria serves as a list of pointers. By means of cross-references such as those in 'Temporary employees' the list of possible criteria can be expanded.

Concerning 2.: With respect to the factor 'relations of the company with foreign countries', the major category 'Social sustainability' again comes into play. In this area the investor finds under 'External interest groups' a subordinate item designated 'Foreign countries'. Under this heading various criteria and questions are subsumed which belong to the area selected by her and constitute pointers for examination criteria.

Concerning 3.: With respect to the third major concern of the investor, viz. 'environmentally compatible production of goods', all factors addressed in the area 'Environmental sustainability' could play a role. If she so chooses, however, this investor is free to select as relevant examination points from this spectrum just the items comprised in the group: 'Energy' to 'Environmental technology'. Here as well the investor in our example selects on an independent basis the items that are of importance for her.

In the present example the work with the guidelines would now be finished for the investor. The next step would be for the investor to pass on her 'personal catalogue of criteria' to a rating agency with the request to carry out an examination of a company or companies on the basis of the criteria selected. The results of this examination, together with its subjective evaluation, would then constitute the basis for the investment decision on the part of the investor.

#### 4.2 Overview of the criteria

We are proceeding on the basis of the conviction that economic activity is functionally dependent on the general recognition of moral standards. Such standards are therefore prerequisites of economic activity that are not brought into being by the economic system itself, but which can indeed be undermined, impaired, or (in the extreme case) destroyed by this system. Thus indispensable prerequisites of economic activity lie outside of the economic system or, more precisely, in the moral understanding embodied in the social culture and its normative contents. For example in the following ten commandments:

You shall comply with the bio-cultural standards in every respect (survival safeguarding)

Do they produce military goods?

Does the company profit from executions (e.g. Shell in Nigeria)?

Is the decimation or extermination of ethnic communities generally accepted?

Do they pursue marketing strategies that include the acceptance of death risks?

You shall not cause pain!

Are girls and women forced to take abortions or sterilisations?

Does the company sell products whose sale has been banned or been rated risky in one country on the grounds of health issues, to other countries which consider these products as not harmful?

Does the company support authoritarian leaders of a country in which people are tortured in any way?

Does the company tolerate child labour (modern slavery)? Does the company support measures to eliminate the necessity of child labour?

You shall not render anyone incapable!

Are local products being replaced by export or sale of corporate products (e.g. synthetic sponges for lufa-cucumbers)?

Are local craftsmanship and agricultural abilities being replaced (discarded clothes from Europe instead of local textile industries)?

Does the company exploit countries (e.g. natural resources) or individuals (working power) in such a manner that they won't be able to regenerate themselves?

Are traditional skills and manners, as well as the informal sector, being eradicated, because the company supports and demands different rules of conduct?

No one should be deprived of freedom and opportunities!

Does the company co-operate with countries or their governing elite that systematically oppress or discriminate against ethnical, political or religious minorities?

Does the company co-operate with countries or their governing elite which systematically oppress or discriminate against women (e.g. Islamic countries that deny women the participation in public life)?

Does the company aggressively attempt to impose its own values and views on life upon other people and countries?

Does the company support in any way the authoritarian leaders of countries in which people are sentenced to long term imprisonment for minor crimes or for political reasons?

Does the company try to establish monopolies in particular countries?

Does the company claim exclusive rights for the use of resources or the sale of particular products?

Does the company buy patents or trade marks not for using them, but in order to keep competitors and competitive products from the market?

Let everybody enjoy themselves!

Does the company use aggressive marketing methods to show their contempt of traditional structures and existing products, make them look 'old-fashioned'?

Does the company respect local traditions, rituals, festivities?

Does the company try to introduce the efficiency factor in an aggressive manner to both its domestic and foreign branches, regardless of their employees' objections or suffering (disciplinary strategies)?

You shall not deceive and cheat!

Do the products display a seemingly higher quality than they actually have (e.g. planned obsolescence for goods of 'credence quality', cheating)?

Does the company bribe politicians or other high-ranking persons?

Are the advertising campaigns restricted to providing product information or do they use psychological means and tricks to attract potential consumers?

You shall keep your promises!

Does the company consequently pursue envisioned goals (e.g. programs such as 'promotion of women' or 'humanitarian labour')?

Does the company adhere to contracts and promises even when the countries concerned are economically dependent on the company?

You shall respect the property of others!

Are local products deliberately being replaced?

Is toxic garbage exported?

Is the biological diversity protected (e.g. no clearing of the rain forest)?

Is the country's natural heritage appreciated and respected (e.g. patent on a certain Indian tree as pesticide)?

Do you accept land property rights by common law (e.g. Indians in the Brazilian rain forest)?

Are ethnic groups evicted from their traditional territories?

How does the company act in view of expropriated persons, if either the company itself or its predecessor was responsible for the annexation?

How does the company act in view of expropriated persons whose property was annexed by a country and then passed on to the company?

Is a person's intellectual and spiritual property respected (e.g. by patents)? When acquiring a person's intellectual or spiritual property, do they pay market value?

You shall obey the law!

Is the individual's personal sphere respected (e.g. data protection)?

Does the company adhere to the respective trade's 'codes of ethic' (e.g. Manifest of Davos)?

How often has the company been subject to investigations arising from the violation of the law, either in the home country or abroad? How often was the company prosecuted? How often was the company found guilty?

How serious were the accusations or charges, especially those arising from offences against human rights?

Did the company co-operate in the investigations? Did it agree with the verdicts?

Did the company's policy change as result of these verdicts?

How did the company treat guilty employees?

Never ask for abilities exceeding the individual's capacity!

Does the company cater to the special needs of social groups such as handicapped persons, sick persons, children, adolescents, women, also in countries lacking appropriate laws (European standard as voluntary world standard)?

Are the corporate employees expected to act according to certain codes of conduct, even if they cannot justify them morally (e.g. to other members of the staff)?

Does the company expect their employees to take on workloads that eventually keep them from attending to the needs of their family and friends or prevents them from participating in social and cultural events?

Are employees required to suppress corporate-internal facts that burden their conscience and keep them from performing their responsibility for the staff, society, nature, environment etc.?

Are employees of corporate research divisions, university or federal research facilities expected to suppress research results that burden their conscience and keep them from performing their responsibility for the staff, society, nature, environment etc.?

Economic activity is dependent on this moral understanding and poses a threat to it at the same time. E.g. in the event that commercial thought patterns (e.g. maximisation of individual advantage) are extended to non-commercial spheres of life (e.g. the family) and find corresponding expression in widely accepted value concepts (e.g. 'Time is money'). Theoretical support for this view is provided by the premise of 'colonising the cultural world' imposed by the dictates of necessity created by the economic subsystem (Habermas 1981). To this premise we would add the conjecture that (in the long run) this colonising manifests itself in efficiency loss within the economic system itself (increase in transaction costs as a result of anomie and loss of trust).

The ensuring of the bindingness of moral standards becomes all the more important the more complex the organisation of companies and their environment becomes (Wieland 1993, pp. 7-31). Our premise that every economic order is dependent on the efficacy of normative standards that cannot be generated within the economic system itself implies more than just the necessity of government or statutory regulation of economic activity. It implies further a responsibility on the part of every company for the continued existence, as well as for the discursive development, of the normative moral understanding inherent in society and culture. This responsibility is not exhausted by the observation of existing laws (legalism), but rather includes the 'moral culture' of a company as well. An incipient acknowledgement of this is already manifested in some codifications of company principles.

The dimension of Cultural Sustainability fundamentally denotes corporate ethical responsibility in a specific society and in a specific culture. If we deal with the issue of ethical responsibility on the level of a culture, 'culture' then is focussed on both the social existence or human companionship and the dealings with the environment. A company is cultural sustainable, when it takes up the manifest ideas, institutions, rules, rituals, symbols and myths on whose grounds a culture and tackles its problems.

In other words: the normative moral understanding within a culture has to be incorporated into the company culture. Thus the criterion of 'cultural compatibility' refers to the issue of whether and in what manner a company discharges this responsibility, i.e. of the extent to which it views social and cultural norms as having binding character.

## 5. Cultural Sustainability

Cultural Sustainability is conceived as the compatibility of economic activities with the progressing cultivation of society's potential for social change with respect to  
The individual's chance of development and self-realisation  
The community's integrating abilities



The natural environment's and the future generations' abilities to survive and  
The chances of indigenous cultural development

Cultivation is conceived as continual acquisition and sophisticated interpretation of basic human values.

The potential of change refers to the general consensus on the culture-specific outlooks on life, the cultural arrangements, and the way societies symbolise their view on time, experience their visions and forward their perspectives for human development in the community.

Cultural arrangement not only consists of manifest perspectives, institutions and rules, but also deals with symbols, rituals, myths that give orientation for interpreting the world and shaping people's life in harmony with nature.

Corporate cultural sustainability comprises social and environmental sustainability in so far as they both are part of the ethical goals, which, taken together, amount to cultural sustainability. A company can only be rated as cultural sustainable if it pursues not only profit maximisation, but also ethical goals. The relation between the economical and the ethical goals leads to a compliance-rating of the cultural sustainability (the compliance with moral standards or human values). The questions concerning the actual responsibility in the community, in foreign enterprise for indigenous cultural development and the responsibility in the relationship with socially deprived groups lead to the system and performance-rating. In order to express explicitly the evaluation base of the three-dimensional compliance, system and performance-rating, we state the basic standards, from which the actual assessment criteria are derived, as follows. The derivations (questions) shall be considered as examples. In order to structure this, we distinguish anthropologically given motivational structures, general moral principles, and value concepts, which prevail in a given society.

#### 5.1 The six basic human orientations (5,6) in combination with general moral standards

Our starting point here is the following trans-historical or anthropological constant: In order for human beings to control their behaviour rationally they require the challenge of respectively opposing motivations such as aggression vs. caring concern, competition vs. co-operation etc. With the help of their reason, human beings have to mediate - in ambiguous situations - between these motivational poles. In this process it is conceivable that they orient themselves in terms of principles such as: 'You shall kill no one!' Or 'You shall keep your promises!' etc. It is also possible, however, for human beings to orient themselves uncritically in terms of socially predominant behaviour patterns that run counter to fundamental principles. It is a central objective of the ethical evaluation of companies to bring this state of affairs to light and create an awareness of it. The following enumeration is provisional and requires further elaboration.

##### 5.1.1 Consideration and fairness in spite of competition

Competition is not supposed to destroy, e.g. by usurpation of so far well-functioning company units and their successive destruction.

Does the corporate attitude pursue the ideal of fair competition?

Do the company's strategic activities follow the ideal of fair competition?

Does the company avoid usurpation?

Does the company avoid ruinous competition?

Does the company avoid unfair competition?

##### 5.1.2 Ready for dialogue instead of taking positions

Readiness for dialogue means accepting controversial standpoints. Taking positions means insisting on one's own points of view and refusing to question one's interests.

Are the company's conceptional and strategic activities aimed at a specific economical reasoning or imperialistic management strategy without ever giving them second thought?

Does the company recognise the necessity of rendering economic activities compatible with the environment, with the protection of resources and a fair distribution of social responsibilities?

Acknowledging the variety of economical courses of action and maxims, does the company consequently evaluate its own activities on a morally varying scale – depending on the maxims applied?

Does the company take notice of newer theories and dialogues (e.g. resources economics, welfare economics, distributional justice between the generations, humanistic economics, social economics, ecological economics)?

Is transparency prevailing in the corporate policy?

#### 5.1.3 Limitation of partial interests due to respect for the common good

A company lacks respect for the common good if it threatens with relocation in order to extort subventions, or if it avoids fulfilling its communal duty by moving its tax-relevant location to a tax-paradise.

#### 5.1.4 Self-limitation concerning expansion and growth

This means to limit expansion, for example in order not to lower quality standards. Limitation is important, as unlimited expansion destroys the necessary diversity that is elementary for the potential development of the community and the self-realisation of the individual.

How does the company perceive its own expansion (expansion strategies)?

Is the expansion aimed at a limited market?

Does the company accept limits for commercialising living standards?

Are decisions concerning innovations and allocations taken along the lines of limited commercialisation?

#### 5.1.5 Creativity with responsibility

Responsible anticipation of risks, side effects external effects. Search for innovations to increase fault-friendly production sites. Search for innovations to replace end-of-pipe-technologies.

In which way does the company search for possible effects of its products and services, in order to spare consumers negative side effects, that may even emerge after a long term use of these products and services?

Does the company make sure that its staff preserves their so far existing knowledge and abilities?

Does the company offer family-friendly working conditions?

Does the company respect different attitudes towards time?

#### 5.1.6 Renouncing the right of the powerful

Striving for expansion should not be enforced at the expense of the legitimate stakeholders' claims (customers, employees, neighbours, suppliers, communities, etc.)

Are phrases such as 'when the market is concerned, the manager must not hesitate to bite' accepted throughout the company?

Do they renounce

a) Paternalistic (controlling, patronising) ways of caring?

b) Overcharging demands in services?

Is the company's own history glorified?

Do they speak openly about past mistakes, shortcomings, omissions (e.g. the role of the company in the Third Reich)?

Does the company try to stylise or mysticize its rank by symbolic means such as snobbishly elegant, ostentatious architecture?

The respect of an enterprise facing external interest groups belongs to a cultural sustainable conduct, which can be tested by a system- and performance-rating. This may be demonstrated by the following examples:

## 5.2 External interest groups

### Customers

Commercial buyers

Consumers:

Products: Quality, value-for-money, and the external appearance of the products are oriented to the long-term needs and interests of the consumers / Examples of product quality / Non-injurious to health or health-promoting / Abstention from use of questionable additives and/or production methods (genetic technology, radiation treatment) / Low-risk design to the greatest extent possible (product safety) / Tolerance for incorrect use / Designed for easy repair (replacement parts, materials) / -material selection respecting ecological considerations / The entire product life cycle is taken into account / Ecologically packaging / No optically deceptive packaging / The company maintains an efficient system of quality control; it makes use of official seals of approval, etc.

Customer relations: Customer friendliness is a company strategy. Employees are trained, monitored, and evaluated in this respect / There is prompt and inexpensive customer service / The company provides comprehensive guarantee services and reacts obligingly to wishes concerning a change in, or a reduction of the purchase / Fair treatment of customer data (no unauthorised dissemination)

Advertising: is information-oriented and abstains from superficial campaigns ('light products') / abstains from the practice of 'attracting attention at all costs' (e.g. Benetton) / abstains from dishonest or misleading statements / abstains from sexist elements / abstains from advertising directed at children / abstains from comparative advertising / takes into consideration national, cultural, and religious values, taboos and sensitivities / is attuned to the respective local market (e.g. Nestlé baby milk)

Information: The company provides comprehensive information on product qualities and production procedures / Production materials and preservatives, as well as production methods (radiation treatment, genetic technology), are fully disclosed / Price comparisons are facilitated, not hampered (e.g. package sizes, unit pricing on the package)

Adjustment of complaints: The company provides a direct and uncomplicated (perhaps even free of charge) information and complaint channels for customers / There is a consumer affairs department, etc. / There is a telephone number under which the manufacturer can be contacted free of charge / The company reacts constructively to customer complaints (no brush-offs, no dodging of sensitive issues)

Foreign countries, particularly less and least developed countries (LDCs)

Business contacts with LDCs:

Production: Does the company produce in LDCs or in China? / Are the same environmental standards observed abroad as 'at home'? (Eco-dumping?) / Are wages paid and employee benefits granted that are comparable with those 'at home'? (Social dumping?)

Exports: Does the company export to LDCs? / How suitable are the products for these markets (e.g. status goods for the upper class)? / Are marketing strategies pursued that accept the risk of fatalities (case of Nestlé)? / Does the company adhere to export prohibitions or trade embargoes?

Imports: What materials are imported from LDCs? / Are the suppliers selected purely in terms of economic criteria, or do social factors also play a role (e.g. Transfair products)?

Value increase: Where does the creation of value increase primarily take place? / How is net value increase/profit distributed?

Does the company lay claim in individual countries to exclusive rights to the exploitation of resources, distribution and sale of certain products, etc.?

Does the company take into consideration the (non-)observance of human rights in the co-operating country (in accordance with the UN-Charter: individual, social and cultural human rights): Child labour (age of the children, type, duration and arduousness of the work) / Work done by women / Support of or co-operation with countries (or their leadership elite) in which women are systematically discriminated against or disadvantaged / What is the policy with respect to the cultural role of women? / Is decimation or extermination of ethnic groups tolerated? / How does the company conduct itself in the respective political context, particularly in the case of political conflicts? / Does the attitude obtain that 'business takes precedence over politics' ('policy of non-interference')? / Does the company support, by any means of (active) co-operation whatsoever, the powers-that-be in a country in which human beings are tortured? / Does the company co-operate with countries (or the respective power structure), in which ethnic, political or religious minorities are systematically oppressed or discriminated against? / Does the company, through any kind of co-operation whatsoever, support the power structure in any country in which people are condemned to (disproportionately high) prison sentences, or even to death, for minor offences or for political reasons?

Displacement of local products: Production of 'cash crops' (e.g. flowers) / Mono-cultures, plantation economy / Fodder cultivation (e.g. soy beans, corn) / Displacement of local products by means of the export or sale of the company's own products (e.g. wheat instead of millet and cassava) / Is there deliberate displacement of local products by means of aggressive marketing methods? / Is there a conscious attempt to denigrate previous ways of life and traditional products and to render them 'out of fashion' (e.g. fast-food chains)?

Policy of preserving traditional elements or 'modernisation at all costs': Is there displacement of local handicrafts (European second-hand clothes instead of domestic textile industry) and farming methods (e.g. in favour of mono-cultures)? / Are traditional practices and skills starting to disappear as a result of company support for, and promotion of, changes in behaviour? / Displacement of the informal sector

Compatibility with sustainable development: Ground and surface water / Soil / Biological diversity / Waste, toxic waste (retention within the country, export to LDCs) / Protection of species, biotopes and eco-systems

Contacts with environmental groups in the LDCs: Financial support / Other forms of support  
Does the company respect cultural traditions and contexts, or does it make an aggressive attempt to impose its own life styles and value concepts?: Acknowledgement of other attitudes towards time / Acknowledgement of other attitudes towards work (or contingency discipline strategies) / Respect for religious festivals, holidays, etc.

Respect for property rights, or defraudation and exploitation: Does the company attempt to obtain and make use of patents on the 'natural inheritance' of a country? / Is common-law land possession respected, or are ethnic groups driven out of their ancestral territories? / How does the company react to questions pertaining to property belonging to people that at one time was annexed by the company or by a predecessor company? / How does the company react to questions pertaining to property belonging to people that at some point in the past was annexed by a country and then passed on to the company?

Does the company co-operate with development-aid organisations?: Active form of co-operation, self-initiated projects / Reactive form of co-operation (obligation)

## Investors

Investors in general: Process of raising capital / Statements made at the time of the stock issue have been borne out by events / The prognoses made at the time of stock issuance with respect to profits, sales figures, stock-quotations expectations etc. were realistic / The company deems it important that its investors understand the makeup of the capital investment and are aware of the nature of the potential profits and degree of risk involved. For this reason it informs potential investors and investment brokers to this effect / Conditions are the same for all investors, irrespective of the sum invested

Information: Information only on request or provision of general information to all investors / Investors are informed about the company more frequently than is required by law, or is customary in the industry / The information provided on the fortunes of business activity and on the economic situation of the company is more comprehensive and goes deeper than is required by law and/or is customary in the industry / Company-provided information is well organised, appealingly laid out, and easily readable (perhaps awards for the layout of company reports) / There is detailed information in excess of the legal minimum on the destinations of equity-capital flows (e.g. breakdown according to regions) / There are studies (esp. published studies) on investors and equity investments (designation of names and amounts) / There is detailed information on the decision makers (names, CVs) in order for the investor to get a better idea about the company's future direction / Accuracy of the prognoses and truth of the statements made by the company administration (extent and frequency of errors)

Relations between investors and management: There have been campaigns against the company conducted by groups such as Critical Shareholders / In spite of considerable differences of opinion a dialogue has been maintained with these groups. Initial reactions to their demands have evidenced themselves / There is a voting-rights restriction set at 5%. This gives more possibilities to small stockholders / There have been investigations of insider offences perpetrated by members of the company / The company has created, above and beyond legal requirements, possibilities for the control of decision makers by the investors / With the creation of an investors' advisory board which advises the company management with respect to certain decisions, as well as having a partial right of codetermination, the company has allowed for a possibility of exerting influence above beyond legal requirements  
Manner of business administration: The fluctuation in the administrative level of the company is high; the business policy is thereby subject to considerable change / The company is known for its wage scale, which is well above union rates / The entertainment expenses on the part of the management are regarded as exaggerated

Investment trading: There is a liquid secondary market, which makes the sale of capital investments unproblematic / The companies provide assistance in the event that investors want to sell their holdings; they look for new buyers, or repurchase, the laws permitting, the stocks themselves

Equity investors: A large part of the earnings is/was distributed among the stock holders. The general practice is dividend-oriented / The discrepancy between dividend distribution and profit trend is/was above average in comparison with other companies in the industry / The profit trend has been in the past 10 years (and within this period of time in every single one of these years) above average for the industry / for the corresponding stock-market index / Increases in the capital stock with the exclusion of the subscription right ('watering-down effect')

Debt-capital suppliers: Borrowed funds are covered by an above-average number and quality of securities / The positions stated by the company administration concerning business practices have been adhered to in ... % of all cases after the granting of credit / There have never been any difficulties with respect to the punctual repayment of principal and interest / Only a small amount of earnings is plowed back. Hence there are only marginal buffers for the absorption of possible losses in the coming years

#### Competitors

The company does not engage in the hostile take-over of competitors

The company does not engage in ruinous competition

The company does not engage in the intensification of competition (indirect ruinous competition)

The company does not make arrangements in favour of third parties

The company shows restraint with respect to pirating employees

#### Suppliers

How many suppliers does the company have?

How extensive is the geographical distribution of the suppliers?

Are the suppliers economically dependent on the company (e.g. are more than 50% of the sales effected with the company)?

Were or are conscious attempts made to prevent suppliers from becoming dependent?

Are attempts on the part of employees to make themselves independent as suppliers supported by the company?

How do the purchasing conditions compare with prevailing conditions in the industry with respect to suppliers?

Does the price policy with respect to company-owned supply companies lead to a shift of profit away from economically weaker countries?

Assessment of environmental compatibility and evaluations of the degree of social and cultural compatibility for the business practices of the supplier

Is active and focused influence exerted on the ecological and social conditions pertaining to the suppliers?

Does the supplier engage in production procedures that would be subject to tight restrictions or prohibited in the context of the company to be rated?

Do the procurement guidelines take into account ecological and social requirements?

Neighbourhood and neighbours

Neighbourhood council

Local political activities

Policies towards/manner of dealing with neighbours

Dealings with the general public

Guidelines for public relations (interface definition with respect to the company's environment, PR as dialogue or advertising)

Kind of influence with respect to journalistic research support, toleration, obstruction: Attitude towards investigative journalism / Documentation, information, sources etc. / Company positions (interviews) / Advance structuring of interviews / Reactions to employee-media contacts / Definition of the relationship between employees and the general public / Interpretation of the concept 'internal company affairs' or confidential company matters / Extent of control over or monopolisation of outside contacts

News coverage and advertising (advertising budget as a club for threatening the media)

Legal measures (interim injunction, opposing account)

Dealings with public criticism of the company: Communication with consumer associations and environmental groups / Communication with critics (case Nestlè) / Openness to panel discussions, hearings etc. / Interaction with 'critical stockholders' etc. / Strategies for avoiding image damage / Integration of criticism into the company's 'evolution'

Rebuttal strategies: Increase of the level of generality ('free enterprise') / Ad-hominem rebuttal (discrediting of critics) / Ali-quoque arguments / Ideologizing of the conflict (context shifting) / Imputation of hidden intentions / 'Mimicry of objectivity' / Threats of reprisals ('relocation')

Attitude towards various media: Printed media (newspapers, magazines, etc.) / Radio and television / New media (Internet etc.)

Practice with respect to the principle of disclosure obligation: Accounting of operating results / Disclosure of investment strategies

Image projected to the public

Existence, status, task and role of a public-relations officer

Public accessibility of the company (guided tours, open-house days)

Image projection in job advertisements

Sponsoring

Environmental sponsoring

Social sponsoring

Sports sponsoring

Cultural sponsoring

Health sponsoring

Science sponsoring

### 5.3 Value concepts

Value concepts represent the actual convictions and beliefs in society and culture.

We define 'value concepts' in accordance with Dierkes (1992) and with reference to Max Weber's concept of the 'cultural ideal' as 'values that stimulate behaviour'. Value concepts frequently find expression in maxims or subjective principles of action (Kant). They shape behaviour patterns in a number of objective contexts (use of time, attitude towards risks, relations with colleagues and competitors, etc.). On the positive side, value concepts can indeed reflect the wisdom of population groups or majority segments of the population with respect to conduct in the various areas of life. Value concepts are ambivalent, however, and can generate and reinforce not only morally desirable but also morally unacceptable behaviour. They are therefore in need of examination on the basis of fundamental moral principles. This is in formal agreement with, or analogous to the procedure that Kant has in mind in the *Foundation of the Metaphysics of Morals*, viz. the requirement that the maxims for conduct of every single person be examined in the light of universal law. In the positive case a value concept represents a striving, as it were, towards the realisation of the state of affairs intended by fundamental moral principles. For example 'solidarity with subordinates', 'solidarity with the socially disadvantaged', 'solidarity of human beings with their environment', 'sustainable development', 'subsistence', 'Small is beautiful', 'de-acceleration'.

In the negative case value concepts clash with basic moral principles. Value concepts are indicative of a collective decision, or even a consensus (e.g. standards of consumption), and can - corresponding to the ambivalence of motivational structures - reinforce both destructive as well as constructive potentials in interaction with man and nature, e.g. 'elbow society'; 'Buy today, pay tomorrow'; 'bigger - faster - higher'; 'constant growth'; 'ostentatious elegance and grandiosity'; 'constant availability'; 'Time is money'; 'If we don't do it someone else will'; 'Making noise is part of the trade'; 'Out of sight, out of mind'; 'The whole world wants to be deceived'; 'global player'. In order to contain the development of destructive potentialities, dialogues have to take place in which the survival value for mankind and nature of predominant value concepts can be examined in the light of the fundamental principles embodied in the moral understanding of a culture (Todorov 1985).

From the perspective of cultural compatibility, therefore, it is a component of the assessment of a company to ascertain its affinity with destructive as well as with constructive value concepts that are current in the society in which it finds itself. It is not seldom the case that two companies in the same industry and of the same size differ radically with respect to the value concepts in terms of which they orient themselves. Every company has its own pedigree and history, as well as having its own way of assimilating the social influences to which it is exposed.

An ethical rating must identify the core value concepts in a company, arrange them in accordance with their order of importance, and make an ethical assessment of their constructive or destructive character with respect to the safeguarding of the biological survival of human beings, as well as the environment.

## 6. Social Sustainability

### 6.1 Social Sustainability of Company Organisation

Management principles (see also Cultural Sustainability)

Existence and wording of management principles: Is the delegation of decision-making powers, as well as the self-co-ordination of the employees, accepted as a management principle? / Is there institutionalised codetermination on the part of the employees with respect to planning, decision-making, giving instructions, and monitoring? / Are 'management by ...' concepts applied in the company? / In how detailed a manner do superiors lay down the tasks to be accomplished by employees? / How does the hierarchy view the significance of staff positions?

Developmental context of management principles: By means of what procedure did they become established? / Are there arguments justifying their acceptability? / Is there a connection with business ethics?

Is there a supreme 'management'-principle (e.g. management by principle)? If so, how is it formulated (formally or informally)? / Have there been cases (occurrences), in which it was applied? / Does this company principle refer implicitly or explicitly to particular ethical principles?

Is there a normative codex? Have there been cases in which it was applied? / Is there a threat of penalties for infractions? If so, what do they entail?

Implementation and application of management principles

Extent of empirical 'identification'

Implementation strategies: Are there distinct interpretation criteria (e.g. what 'mobbing' is)? /

Are there optimisation and/or approximation strategies?

Hierarchy

How many hierarchical levels are there in the company and how have they changed in the past 5 years?

In which company areas do group-oriented organisational structures exist or are being planned?

Are there targets for organisational units (departments, branches, profit centres, investment centres, cost centres etc.)? / In what areas do organisational units have their own decision-making authority? / In what areas are there centralised decisions?

Is the independence of employees encouraged?

How does the management view its own management style?

To what extent are communication/reporting channels institutionalised?

How does the management view informal lines of communication?

How are control mechanisms managed?

Are innovation processes institutionalised?

Are there institutionalised conflict-solving mechanisms (arbitrator/ombudsman, ethics officer)?

To what extent are employees provided with information on a formal basis?

How are employees addressed in in-company correspondence?

Organisation strategies

Centralised, decentralised

Amalgamation and participation policies (subsidiaries, interlocking)

Works council, codetermination bodies

Unions, industrial relations

Union agreements, single-company agreements

Activity profile of the unions within the company

Frequency of labour-law disputes with unions in the past five years

Codetermination in the workplace

Semiautonomous teams

Individual decision-making powers

Areas of participatory decision-making

Degree of permitted time autonomy

Suggestion-box system

The company has a practicable and functioning suggestion-box system.

The company encourages employee participation in a company employee suggestion-box scheme, e.g. by / institutionalisation of the suggestion-box system in the company's management principles / regular and appropriate rewarding of suggested improvements (e.g. patent application) / controlling of the implementation of suggestions / constructive reaction to criticism (no discrimination against critics)



## 6.2 Internal interest groups: general interests

### Working-hours regulations

Flexible working hours: In spite of any interest on the part of the company in increasing the flexibility of working hours (competitiveness/variable demand), are the interests of the employees in self-determination and/or a stable occupational perspective taken into consideration? / Individual, social and cultural time-plan requirements (travel timetables, school times, family time) are perceived, discussed, and taken into account in the organising of flexible time plans / Within the company, what percent of all jobs/positions are considered divisible/capable of being made flexible? / Is the point of departure for the concept of flexible working hours a five-day week, a six-day week, or a seven-day week? / What ideas are relevant with respect to the separation of working hours and operating time (e.g. raising productivity, long-term safeguarding of jobs)?

The seasonal organisation of company working hours is reacted to with a comprehensive concept for the organisation of total working time, i.e. overtime and/or idle periods are compensated for as follows: Within the framework of an annual working-hours arrangement / Within the framework of working-hours corridors / Within the framework of a part-time work concept / Within the framework of time-account arrangements / Within the framework of individual agreements on daily/weekly working-hours reductions, on weekly/monthly breaks, i.e. on the basis of individual flex-times

Reduction in working hours: There are only rigidly determined working hours / Deviations from the regular working hours per week amount to .... hours? / Reduction in working hours is effected without or with pay cuts / The extension of working hours is/is not subject to supplemental pay

Consideration of employee needs: How are conflicts resolved when determining vacation times? / To what extent are social, religious and cultural needs been taken into consideration?

### Job security

The company does not view work performance as only a factor in production, but also as a means whereby human beings provide their lives with meaning and security / Concerning decisions with respect to jobs, cost factors are not the only ones taken into consideration / The company rejects a 'hire and fire' personnel policy / What is the position of the company with respect to limited employment contracts?

Interruption of the employment relationship: Parents are granted time off for child raising in excess of the legal norm / The company supports social activities on the part of employees (e.g. Social Year) / Employees convicted of a criminal offence are re-employed / What is the attitude of the company towards a sabbatical year? / When work is resumed there is a training period for the updating of skills

Continued employee training is viewed as an instrument for the safeguarding of jobs and is supported financially

Children of employees are given preferential job and/or training opportunities

### Working atmosphere, mobbing (see also Cultural Sustainability)

There is a widespread atmosphere of openness and straightforwardness, which makes possible and facilitates the acknowledgement and correction of errors. An open atmosphere for discussion is cultivated consciously.

Company objectives, values and norms are transparent to everyone and generate a high degree of assent.

With respect to changes of company objectives the employees are informed in time, and a discussion is initiated between the company administration and the employees.

Personal initiative on the part of individual employees is encouraged; independence and creativity are rewarded.

Co-operation among the individual employees - irrespective of the position in the hierarchy - is desired and encouraged, as is co-operation between individuals and groups.

The company makes the attempt to take the individual psychological and physical dispositions of employees into consideration, as well as familial stress situations.

The task of regulating job layout and working hours is delegated to semiautonomous groups. Each year there is a company party and/or a company outing. Increase of employee motivation by means of vacation-like company trips for parts of the work force.

#### Humanising of working conditions

In the planning and structuring of jobs and working conditions, the company sees to it that the various rights guaranteed by German constitutional law - viz. the protection of human dignity, the right to free and unhindered personality development, equality before the law and the equal rights of men and women - are all taken fully into consideration and that a balance is observed between effectiveness and the dictates of work on the one hand and humanity on the other / The company does/does not guarantee the protection and fostering of free and unhindered personality development at work / The company strives to ensure a large number of possibilities for the satisfaction of basic human and social needs and rights of the employees / Ergonomic findings concerning the humanly adequate structuring of work are taken into consideration / In the planning of production technology the physical and psychological health of the employees plays a decisive role.

Due consideration is given to the nature of the employee as an acting, responsible subject: Work is provided with creative content / The work process is structured in such a way that the employee experiences himself/herself as co-determining and being jointly responsible and that a contribution is made to his/her self-fulfilment / The principle of 'job rotation' is/is not applied / The principle of 'job enlargement' is/is not applied / The principle of 'job enrichment' is/is not applied

#### Hiring and firing policies

Are job openings initially made known internally?

In the hiring process are such factors taken into consideration as: age / nationality / family status / sex / long-term unemployment / retraining requirements

Time limitations of new job openings: length / possibility of an extension / chance of permanent employment

How are new employees introduced into the company?: Oral introduction / Letter of introduction / By superiors or fellow employees / Solely with reference to the job

Are there guidelines and criteria for the dismissal of employees? If so: Have they been reached in agreement with the works council? / Are social components taken into consideration above and beyond the extent required by law (e.g. age, company loyalty, family status, sex, nationality, religion)?

In dismissals for non-company-related reasons (e.g. alcoholism of the employee) does the company assume any social responsibility prior to making the dismissal effective?

Are dismissed employees assisted in their job search?: / supported by means of retraining or / supplementary-training measures? / shown priority with respect to job openings?

#### Remuneration, bonuses, profit sharing

There are guidelines known to the employees for the application of various wage types.

The classification in different wage and salary groups is intelligible to the employees: What is the percentage difference between the lowest and the highest form of remuneration? / Does the company exhibit a preference for certain types of remuneration?

Time pay: Are wages in accordance with/under/above union scale? / Are distinctions made on the basis of sex, family status, age, or other factors?

Piece-rate wages: The workers affected have the possibility of codetermination with respect to the fixing of the piece-rate quotas, prescribed length of time for job execution etc. / To what extent with respect to group piecework does the team determine the wage distribution? / With respect to group piecework are social factors also taken into consideration? / What guidelines are there for dealing with workers, who are not or no longer able to meet the piece-rate quota?

Incentive-wage system: Premiums are paid for special achievements such as: increased efficiency / performance speed exceeding the prescribed rate / reduction of defective-work

rate / saving of material and energy / ecological improvements / other achievements /  
Premiums are also paid on the basis of social considerations

Commissions: By means of relatively high commission rates and a correspondingly low fixed pay rate employees are impelled to 'sell at all costs' / A relatively high set wage makes it possible for the employees to spend more time on informing and advising customers / Are the commission rates differentiated in accordance with: ecological considerations? / social factors?

Participation of the employees in company success: at all levels / only at the administrative level / Decision-making capacity and sources with respect to the extent of the participation / Criteria for the distribution among the employees (time with the company, position in the hierarchy, incentive provision for younger employees) / Type of distribution: Additional pay (cash distribution) / Bonds / Shares / Conscious attempt by means of the kind of profit sharing to promote codetermination on the part of the employees (e.g. voting right for employee stock) / Rights limitations imposed on bonds and/or shares / Effects of the termination of employment on accumulated profit-sharing benefits / Form of loss-sharing by employees

Provision for the future: The company takes out lump-sum life-insurance policies for employees (insurance amount, length of time with the company at the time of conclusion of the contract) / Agreements with respect to company pensions

Other forms of remuneration: There are special conditions for employee purchasing / Employees have a right to certain additional payments in kind (car provided on an annual basis, coal, etc.) / Christmas bonus / Vacation money / Allowances for familial occasions (birth of a child etc.) / Anniversary benefits / Cost absorption (e.g. travelling expenses)

## Health

### Safety in the workplace

There is a company health policy in accordance with which the company takes particular measures in order to maintain and promote the health of its employees: The company health record / Days of absence on account of illness / (overall) / Occupational illnesses resulting from the production process / Accident statistics, number of work-related accidents / Manner of dealing with materials hazardous to health

The company takes active measures to protect the health of its employees: Company doctor, first-aid attendant, first-aid station / Sport and fitness courses are offered /paid / encouraged. / The company has its own fitness facilities / Ergonomics in the workplace / 'Clean' workplaces / Detached rest areas are available and can (in fact) be used / Breaks can be taken / In the preparation of food the company cafeteria takes into consideration its nutritional value (e.g. unrefined foods).

### Personnel development

Employees are viewed basically as 'a human resource' and are considered in terms of economic goals and values.

Qualified employee searches are undertaken by an assessment centre.

Relevant company departments are involved in searches for qualified personnel.

The company provides employees with possibilities and financing for further education and training.

Internal evaluations of the employees at regular intervals: Presentation of the results to the respective employees / Justification by superiors of the evaluation / Opportunity for employees to state their positions and enter objections

The determination of wages/salaries is based on qualifying characteristics (training, experience, degree of responsibility).

### Social facilities

Lounges and sitting rooms / Day nurseries / Cafeterias/canteens/kiosks / Rooms for hygiene / Resting areas

## 6.3 Internal interest groups: particular interests

### Older employees

Particular allowances are made for the physical and emotional needs of older employees.

The company offers attractive early-retirement arrangements.

With part-time work older employees can 'glide' into retirement.

The release of older employees is carried out in the most socially acceptable manner possible (e.g. special protection against dismissal in the light of past work performed).

### Semi-skilled workers

Care provision during the learning process?

Possibility of acquiring further qualifications?

### Foreign employees

Percentage of foreign employees on the work force: overall / at the lower level / at the middle level / at the top administrative level

Consideration of interests: There is a foreign-workers representative / By means of special measures (e.g. language courses, for relatives as well) the company attempts to facilitate integration / Within the company itself foreign employees are given assistance (e.g. multilingual signs etc.)

Discrimination: There is no discrimination with respect to work distribution (e.g. dirty, unpleasant work) / Sanctions against xenophobic animosities, acts of discrimination, and excesses (transfer, written rebuke, up to and including dismissal for unacceptable behaviour) / The company takes demonstrative measures against hostility towards foreigners (posters, open letters, reports to the police, demonstrations, works assemblies, international parties and festivals) / Consideration for religious and/or cultural particularities (e.g. recesses for prayers and rituals, vegetarian/kosher food in the company cafeteria)

### Trainees

The company provides training opportunities. (What percentage of the employees?)

The company endeavours to hire its trainees after the training period. (What percentage?)

Development in the number of training positions in the last 5 years

### Handicapped employees

Percentage: The percentage of severely handicapped persons in the company corresponds to the employment quota required by law (6% in the case of more than 16 employees).

Consideration is shown for the interests of the handicapped: The company has working facilities specially adapted to/converted for use by handicapped employees / The company areas where work can be done by the handicapped are equipped with facilities suitable for the handicapped (elevators, toilets for handicapped, adequate door widths) / The company has a form of elected representation for the severely handicapped (federal statute protecting the severely handicapped).

Discrimination: The company pays a compensatory tax for ... jobs reserved for the severely handicapped.

The company places orders with workshops for the handicapped on a regular basis. (Is this viewed critically?)

The company donates on a regular basis/ substantial sums to institutions that promote the welfare of the handicapped.

### Women

Proportion of women: Percentage of women on the work force / overall / in lower wage groups 'negligible jobs' / at the middle level / at the top administrative level / 'non-union-wage employees'

Consideration for the special interests of female employees: The company provides family-oriented working conditions / Extended child-raising periods are offered / The double burden of family plus occupation is taken into account / Mothers on child-raising leave are given possibilities for maintaining contact to the occupational world (e.g. free-lance work on projects) / To the extent possible jobs are kept open during the time of family leave / There

are programs for occupational reintegration following a period of family leave (reintegration aids) / Men who take family leave are not discriminated against / There is no social pressure in the case of special leave on account of child illness

Offering of part-time work for mothers and fathers: at all levels / only at the lower levels / generally supported / generally discouraged

Job sharing at the top-management level is offered.

Company provision of qualified child-care during working hours (extent, financing, access criteria, agency provision)

Discrimination: The company ensures the equal treatment of part-time and full-time employees, as well as male and female employees / Specific measures against sexism and sexual molestation in the workplace / The product advertising of the company is not sexist, nor does it reinforce any roll stereotypes

Advancement of women: Explicit policy on women (plans for women's advancement, women's representatives, etc.) / Genuine efforts to increase the proportion of women (hiring criteria, personnel development, job descriptions in advertisements, quotas for women) / Monitoring of the success of company advancement of women / Equality of men and women with respect to further training and education / Special seminars and additional training possibilities for women

Female workers in LDCs: How high is the alphabetising rate among the women employed? / Are women subjected to forced sterilisation and/or abortion? / Is there any special protection against dismissal for women? / Are women granted maternal protection or special protection during the child-nursing period? / Are women categorically discriminated against/ disadvantaged (concerning pay, working hours, job content) / Does the company take active measures against social discrimination against women (e.g. training courses, scholarships, vocational training, loans etc.)? / Are there programs against the feminising of poverty (education, information etc.)? / Are there special measures against violence against women? / Are many female itinerant workers employed? / Are there company health programs for women and girls (e.g. AIDS prevention)? / Are women's co-operatives given preferential treatment as suppliers/ business partners? / Can women obtain loans (e.g. from banks)?

Free-lance workers

Was the free-lance worker (male or female) previously a regular employee of the company?

Illusory independence (independence in merely a legal, not in an economic sense)

Is the income/pay of a free-lance worker comparable with the wage costs of an employee within the company?

Marginal employees

Percentage of employees whose employment contracts lie below the limit requiring social security payments by the company (percentage)

Adolescents

Proportion of adolescents on the work force (percentage)

Treatment of adolescents commensurate with their age

Adolescents are systematically integrated and supported in their personal development by means of mentors, as well as further training and education.

Is there any form of youth representation in the company?

Children

The company employs no children under 12 years of age

Employment of children under 12 years of age for brief activities

The company selects its suppliers on the basis of whether or not children are employed in the production process (e.g. Rugmark stamp of quality)

Sick persons

How is illness understood (absenteeism or fate)?

What preventive measures does the company take?

Does the company accept any responsibility for occupational illness?

Long-term unemployed

## Efforts at reintegration

Temporary employees (particularly temps, trainees, civilian service persons)

Temporary employees receive the same treatment as regular company employees and are integrated into the company social life.

Temporary employees receive equal pay for work equivalent to that of regular employees.

The observance of safety regulations for the work done by temporary employees (particularly temps mediated by time-contract agencies) corresponds to that for the work done by steady employees.

Temporary employees are not viewed and made use of as a substitute for a regular job performed by a jobholder with steady employment (male or female).

The company does a thorough job of breaking in temporary employees (particularly trainees and those performing alternative service).

The compulsory character of alternative service is not further intensified by compelling the performers of alternative service to do certain jobs for which they do not feel capable etc.

The learning character of a trainee-ship is underlined by the fact that the trainees are closely supervised and are able to get a reliable picture of the working world.

## 6.4 Products

### Particular product areas

Genetically engineered products and genetic-engineering procedures: Application of genetic engineering to non-human nature / Microbial decomposition of toxic material / Direct genetic manipulation of foodstuffs / Indirect genetic manipulation of foodstuffs (fermentation, enzymes, additives etc.) / Herbicide-resistant commercial plants / Biological pest control / Release into the environment of genetically manipulated plants / Production and utilisation of genetically modified animals

Application of genetic engineering to human beings: Genetically engineered pharmaceuticals / Employee screening / Genetic-diagnostic procedures ('genetic counselling') / Somatic genetic therapy / Prospect of embryo research, germ-line (DNA) therapy / Other forms of genetic-engineering research (e.g. viruses, onco-genes)

Military equipment (dual use, conversion, export, ABC weapons, conventional weapons)

Products resulting from animal experiments

Nuclear energy

Pornography

Addictive substances

### Planned obsolescence

Intentional acceleration of physical product deterioration (e.g. calculated weak points)

Manufacture of products with a long service life / Product design and material / Availability of replacement parts / Repairability

Intentional acceleration of psychological obsolescence (e.g. advertising)

## 7. Environmental Sustainability

### 7.1 Practices with respect to environmental institutions

Attitude towards the threefold goal and principle of environmental law

Does the company acknowledge the responsible-agent principle?

Does the company acknowledge the precaution-taking principle?

Does the company acknowledge the co-operation principle?

Does the company pursue a policy of identifying environmental risks and staying in contact with relevant agencies, etc.?

How can company statements be verified?

### Externalisation strategies

Is the company aware of the externalisation of environmental costs? (If so, is externalisation considered regrettable or is it exploited?)

What types of costs are externalised?

Does the company shift environmentally harmful production to foreign countries?

Access-avoidance strategies (i.e. strategies for circumventing the reintegration of externalised costs)

Exploitation of diffusion of responsibility

Shifting of responsibility to the legislative (inter. al.)

### Internalisation of environmental law by the company organisation

Environmental protection management: Does the company have an environmental officer and/or a department for environmental matters? / If so, what powers and authority does he/she/it have? If not, is any other department or person in the company responsible for environmental protection? / If so, what means of access does he/she have to the company administration (position in the company hierarchy, 'hot line')?

Relationship between environmental law and employee training, i.e. are employees trained to observe environmental regulations?

Extent of linkage between environmental officers, work force and company administration (subversive lone wolf or 'fish in water')

### Membership in environmental associations or initiatives

Membership in 'green' environmental associations such as BAUM, Fortune, UnternehmensGrün. Is there a company image in this respect? (participation in campaigns, initiatives etc.)

Membership in other environmental organisations (BUND, NABU, Greenpeace etc.). Is there an activity profile in this connection?

Membership in other entrepreneurial associations and umbrella organisations (Is this viewed as contradictory?)

### Eco-audit; product-lines analysis

The company compiles an environmental audit within the framework of an eco-management system: Initial environmental audit ('founding assessment' of the environmental management) / Environmental follow-up audit / Initiative for the auditing / Internal audit / External audit (e.g. encouraged by customers, insurance companies) / Objective of the audit / Procedural audit (production process, technological processes) / Systemic audit (structural and operational organisation) / Regularity of examination / A regular examination takes place (systematic audit) / A regular examination is being planned / The examination takes place intermittently (unplanned audit, e.g. on the occasion of new regulations, as a marketing measure).

The environmental audit serves to check the efficacy of the environment-management system or the environmental behaviour of the company: Deviations with respect to the company's own guidelines (environmental program) and environmental principles? / Deviations with respect to state requirements and environmental regulations?

Scope of the environmental audit: Comprehensive examination of company environmental protection at one site / Effects of activities on various environmental areas / Energy management, conservation, and sources / Transportation of raw materials, water management and conservation measures / Avoidance, recycling, reuse, transportation, final disposal of waste products / Noise disturbance on and off the site / Production procedures / Product planning with respect to the entire life cycle of the product / Company environmental protection among customers and suppliers / Prevention of environmentally harmful accidents / Ecology-related employee training

Establishment of an environmental program: Obligations and objectives / Means (short-, medium-, long-term)

Establishment of an environment-management system: Company environmental policy / Organisational anchoring within the company of environmental policies /

Construction/installation and operations control / Evaluation and registration of the effects on the environment / Environment-management documentation

Execution of internal environmental company audits (with reports) / Ecological product-results (material and effectual) / Ecological product optimisation / Weak-point analyses of the management system / Product-lines analyses

Listing or revision of company-specific environmental objectives and environmental policy statements/changes with respect to the preceding audit

Participation of a highly diversified circle of individuals with varying interests with respect to the compilation, verification and discussion of the environmental audit, viz.: Board of directors, management / Employees / Customers / Suppliers / Government / General public / Environmental associations

Motives for the introduction of an environmental audit: Reduction of environmental risks / Improved statistics on environmentally relevant occurrences and malfunctions / Lower insurance premiums for protection against environmental risks / Guarantee and confirmation of compliance with environmental regulations / Reduction of the risk of litigation / Fewer fines and penalties resulting from violations of regulations / Pointers on cost-reduction potentials / Heightened sense of responsibility and a higher degree of satisfaction among the employees / Pointers with respect to requisite employee training / Improvement of employee health / Improvement of the environmental suggestion-box system / Higher credibility among the general public / Advancement of good relations with public authorities / Enhancing effect on company image of the sign of participation (e.g. on the letterhead) / Other motives

Approach to varying environmental standards on a national, regional and world wide basis (see also Cultural Sustainability)

Violation of environmental law

What is the basic attitude of the company to environmental law? Negative-critical (standards too high, too many regulations) / Strategic legalism or passive-reactive / Co-operative or active / Supererogatory (voluntary over-fulfilment of legal requirements or standards)

'How often has the company (or individual employees) been reported on account of violations of environmental law?': What violations have been reported? (reference to a particular statute) / Type of violations (criminal, civil, public law) / Did these include bribery offences in the basic sense against representatives of environmental agencies (number of instances, extent and circumstances)?

How many of these instances ended in a court case?: How did these turn out (acquittal, settlement, fine, etc.)? / In which court system was a final judgement obtained?

Has the company been reported repeatedly on account of the same kind of violations (or convicted)? / Has the risk of fines been intentionally incurred? / Has the frequency of such violations increased or declined?

What conclusions has the company drawn from any violations? (Readiness to learn on the part of the company) / Have violations had any effects on personnel policy? / Have violations had any effects on the production process? / Have violations had any effects on company organisation?

Has the company reacted to the possibility of being reported or litigated against, with repressive measures or threats?

By means of what documents can the information provided be checked?

## 7.2 Practices with respect to environmental information

Declaration of material used

To what extent are the minimum legal requirements met?

Does the company go beyond the legal requirements? If so, in what areas and to what extent?

Management-information system



What use does the company make of internal environmentally relevant information?  
(discovery / implementation/ dissemination)

What use does the company make of external environmentally relevant information?

Transparency of environmental data

Does the company publish an annual environmental report (information on the company's materials flow, energy consumption, emissions, risks, etc.)?

### 7.3 Living beings

Animals

Killing of animals: Species designation of animals killed / Number of animals killed per year / Reason for/purpose of the killing / Type of killing

Pain inflicted (without killing): 'Reduce-refine-replace' strategies / Experimentation with animals / Duration and intensity or degree of interference according to animal-protection statutes / Number of applications made for animal experiments, and with what degree of severity / Number of approvals granted / Number of, and reasons for, applications declined / Transportation of animals / Facilities for animals

Research on, or use made of genetically modified animals: Production of pharmaceutical substances ('gene farming') / Alteration of food properties (e.g. fat-free meat, lactose-free milk) / Creation of influenza resistance or other types of resistances / Use of growth hormones / Research on genetically modified animal models ('oncomouse') / Creation of chimeras

Other utilisation of animals: Further processing of animal products / Import and export of living animals or animal products / Exhibition, circus use, breeding, other

Existence and role of an animal-protection officer

Violations of animal-protection statutes

Plants

Production, release or utilisation of genetically modified plants / Designation of products containing genetically modified plants (soy products) / Research on and use of herbicide-resistant plants / Participation in the patenting of plant-genetic material (monopolisation)

Involvement in practices that displace local genera and species

Ecological compatibility of horticultural practices

Utilisation of trees and wood

Micro-organisms

Genetically engineered modifications

Patenting of genetically manipulated micro-organisms (monopolisation)

### 7.4 Energy

Consideration for the environment with respect to the exploitation and utilisation of energy

Buildings

Are possibilities being used or explored for the reduction of heat loss in buildings?

Lighting

Are possibilities being taken advantage of for increasing the efficiency of the energy used for lighting?

Heat generation

Are heating units being optimised?

Surplus heat

Is surplus heat made use of or avoided?

Efficiency of energy use in energy-intensive companies  
Is advantage taken of available technological options?

Use of renewable forms of energy  
Efficiency of energy use in power plants

## 7.5 Materials

### Waste

Prevention and reduction of waste materials in production  
Waste materials in packaging (for transport, sales): Avoidance and/or reduction (e.g. no additional outer packaging) / Consideration of the product cycle / Recycling capacity (e.g. few types of materials, compostable filling materials) / Easy disposability (e.g. separability of paper, plastic, and glass) / Reusable containers versus one-way system (bottles, glasses)  
Materials: Questionable and toxic substances / PVC, PVDC, chlorinated synthetics / Formaldehyde resins (bakelite, etc.) / Aluminum / Energy requirement in production (e.g. cans vs. glass bottles) and transportation / Is an eco-check carried out on the environmental compatibility of packaging? (If so, by what method?)

Land use and soils  
Over-cultivation / Erosion / Soil pollution, also biotopes

Endangered resources  
Avoidance / Substitution / Economical practices

Use of solid materials  
Raw-material processing (in production, use and post-use phases) / Substitution (renewable raw materials?) / Minimisation (Are conservation possibilities made use of?) / Obligation with respect to a reduction target  
Comparison (competing products, competing companies)  
Effects  
Toxicity: Acute species-related toxicity (e.g. LD 50) / Chronic species-related toxicity / Mutagenicity / Teratogenicity / Carcinogenicity / Endocrine effect / Multiple chemical sensitivity  
Biological degradability  
Accumulation tendency of the substance as well as its metabolites: Geo-accumulation / Bio-accumulation / Fat-solubility of the employed substances or their metabolites / Ability of the substances employed or their metabolites to permeate biological membranes

### Water

Absolute consumption  
Comparative consumption within the respective branch: Diachronic / Synchronic  
Type of water used: Ground water / River water and/or riverbank filtrate / Rivers and lakes / Rainwater / Independent water-utility system (2. plumbing system)  
Purification plants (levels, state of technology)  
Water recycling (closed system)  
Ground-water impact of production: Input of harmful substances into ground water (type and extent) / Risks for water-conservation areas / Reduction of the water-table level  
Temperature rise in rivers and lakes as a result of waste water  
Obligation with respect to a reduction target

## 7.6 Transport

Transport of goods

Proportionality of the various means of transport / Transport distances

Logistics (just-in-time)  
Supply / Warehousing / Distribution

Passenger transport  
Company car  
Job ticket  
Substitution by information technology  
Regular company-owned transportation services  
Encouragement of car pools, bicycle riding

## 7.7 Emissions

Emissions under normal operating conditions (emissions profile)  
Average and peak rates of emissions: What emissions occur on a regular basis? / What emissions occur sporadically? (frequency)  
Type of emission: Environmentally noxious agents, e.g. nitrous oxide (harmful, but not toxic) / Environmentally toxic emissions / Heavy metals (type and amount) / Carcinogenic substances (type and amount) / Mutagenic (genetically damaging) substances (type and amount) / Embryo-pathological substances (type and amount) / Allergens (type and amount) / Dioxins and furans (type and amount) / Effect on ozone concentration / Reduction of stratospheric ozone (CFC, etc.) / Increase of low-lying ozone concentration (summer smog) / Climate- and/or greenhouse-relevant emissions (type and amount) / Carbon dioxide (amount) / Carbon-dioxide equivalents (type, e.g. methane, and amount)  
Reusability and/or need of reconstruction of plant premises after shutdown, closedown etc.  
Relation between emissions and employee exposure, i.e. are the employees shielded?

Reduction strategies  
Developments in the past  
Industry-specific standing / Diachronic / Synchronic  
Emission-avoidance search strategies  
Co-operation with consultant agencies  
Obligation with respect to a reduction target

Emissions in the event of potential malfunctions/breakdowns (emissions risk)  
Probability of emissions due to malfunctioning  
Existence of risk studies  
Limitability and/or local retention capacity  
Maximum damage extent caused by breakdown emissions (worst case) / Type of emission / Maximum material damage / Maximum harm to persons / Maximum environmental damage / Insurability of maximum damage / Ability to compensate the damage  
Duration of presence in the environment (degradability)  
Interaction with other environmental toxins or noxious materials  
Company or plant risk-minimising strategies / Inherent security (nothing can happen, human failure is excluded) / Backup security measures (several safety measures in tandem) / 'Containment' (leaking pollutants are contained) / Relation between human and technical failures  
Information in the event of malfunctions or breakdowns

## 7.8 Environmental technology

R&D strategies  
To what extent have existing possibilities of environmentally compatible technology been taken into consideration when investing in new machinery or replacements?

Is the company innovative with respect to the further development of environmental technology?

Safety technology

Substitution

Overcoming of 'end-of-pipe technologies'

Annotations:

3 Shortened version of February 2000 in comparison to the version of 1997, edited by Johannes Hoffmann, Konrad Ott and Gerhard Scherhorn

4 For the financial performance of ethical-ecological investments see: Armbruster, Christian (2000), *Entwicklung ökologieorientierter Fonds – eine Untersuchung im deutschsprachigen Raum und in Großbritannien*. Köln. Hickman, Kent A. / Teets, Walter R. / Kohls, John J. (1999), *Social Investing and Modern Portfolio Theory*. In: *American Business Review*, 17, January 1999, p. 72-78. Picard, Diane E. / Balance, A Delicate (1999), *Balancing Socially Conscious Investing With Fiduciary Responsibilities Is Easier Than Many Planners Think*. In: *Financial Planning*, 1, Feb. 1999, p. 55-57. Preston, Lee E. / O'Bannon, Douglas P. (1997), *The Corporate Social-Financial Performance Relationship – A Typology and Analysis*. In: *Business & Society* 36, No. 4 (1997), p. 419-429. Reyes, Mario G. / Grieb, Terrance (1998), *The External Performance of Socially-Responsible Mutual Funds*. In: *American Business Review*, 16, January 1998, p. 1,7

5 In this context, the basic human orientations refer to the universal, anthropological impulse structures that are mentioned in the FHG. (see p. 92-95)

6 There can be additional items to each one of the six basic orientations mentioned within the dimension of cultural compatibility. The FHG provide a large number of additional items.

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## The implementation of the Frankfurt-Hohenheim Guidelines: The Corporate Responsibility Rating as a tool for ethical investment

### 1. The ethical investment market

Ethical investment is on the way up. What a few years ago was being dismissed as an idealistic and yield-reducing mixture of money and morals, today attracts a growing number of private and institutional investors. And with good reason: the volumes of investments in ethical and environmental funds are shooting up rapidly, the yields targeted are seen as achievable even over the longer term and the moral gains” are in the meantime being promoted even at the highest political level. Germany’s Federal Environment Minister, Jürgen Trittin, for example, sees in green investment an ‘opportunity for a ...process that can make a decisive contribution to environmental renewal’ (7).

Ethical or sustainability rating, like that carried out for more than eight years by Munich-based oekom research AG, plays an important role here. With the aid of this type of rating, companies – as issuers of securities – can be analysed and evaluated according to ethical criteria. Like the traditional finance rating, this constitutes an evaluation tool that enables capital investors to identify those companies that are global leaders in the field of sustainable development. Secondly, ethical ratings, provided they are used regularly and comprehensively, provide crucial incentives for companies constantly to improve their performance in environmental and social areas through continuous benchmarking.

The market for ethical and environmental capital investments is growing worldwide. According to recent market surveys, the volume of ethical or sustainability funds licensed for marketing in German-speaking countries increased four-fold between 1999 and 2001 to 2.41 billion Euros. Across Europe as a whole, a rise of more than 40 per cent to a total volume of 15.6 billion Euros was recorded. The volume of funds managed in accordance with ethical criteria also continued to rise in the US – the country with the longest tradition in the area of socially responsible investment (SRI). There, growth of 36 per cent to a total volume of 2.03 billion Euros was achieved over the same survey period. It must be particularly emphasised that in all cases the ethical and sustainability funds sector of the market was able to perform far better than that for conventional products.

Two factors favour further growth in the range of ethical/sustainable investments on offer in Germany: firstly, it is clearly evident that groups of institutional investors, particularly church investors, but also foundations/trusts and trades’ unions, wish to match their capital investments more closely to environmental and social criteria. Since market growth in this country is still substantially dependent on the activities of private investors, greater commitment by these groups of investors would give this market development a significant boost. The movement such commitment can give rise to can clearly be seen if one looks at the enormous size of the market in the US, which can be traced back primarily to the activities of institutional investors (e.g. church investors and pension funds). The latter began more than twenty years ago to orient their capital investments toward ethical criteria and are thus viewed as the initiators of the whole SRI scene.

Secondly, the pension reform that came into force on January 1, 2002 is expected to provide further backing for continuous growth in the range of ethical/sustainable investments on offer in Germany. The pension reform obliges the providers of private and occupational pension products to provide written information about whether and how ethical, social and environmental criteria are taken into consideration in decisions on the use of the contributions paid in. This obligation to report is having the effect that all providers of pension products will in the long term have to address the issue of ethical investment.

### 2. The oekom research AG

oekom research looks back on many years of experience as an international rating agency. In 1993, the company developed a sophisticated Environmental Rating system based on scientific research that was judged by an international jury to be the strongest in the field. oekom research has been active as a rating agency since 1994. Building on its tried and tested Environmental Rating approach, and in conjunction with an interdisciplinary research group led by Prof. Dr. Hoffmann and Prof. Dr. Scherhorn, oekom research has developed a new rating product: The Corporate Responsibility Rating (CRR). The CRR is based on the Frankfurt-Hohenheim Guidelines and puts them into practice. This rating gives oekom research an analysis tool, which for the first time makes it possible to deliver a robust assessment of companies' environmental and social performance.

Presently, the company's research range covers about 1,000 companies from more than 25 industries and countries. It is divided in the so-called 'Leader Research', analysing 750 of the most important companies world wide according to the criteria of the CRR, and in the 'Potentials Research', covering about 250 small and mid-sized companies. Within the Potentials Research, the rating agency identifies small & mid cap companies, whose products and services contribute exceptionally to sustainable development, and are e.g. active in the renewable energies, health or education sector. The research range of 1,000 companies covers widely recognised stock indices such as the MSCI World and the DJ Stoxx 600 to over 80%, as measured by market capitalisation. The corporate research is complemented by a country research. The Country Rating of oekom research AG assesses countries according to 130 environmental and social criteria. Presently, the Country Rating is applied to all OECD members and Russia, but may as well be extended to all other nations. Both the Potentials Research and the Country Rating are based on the criteria on the FHL.

This broad spectrum of services makes oekom research one of the world's leading rating agencies in the field of ethical rating. Our research is used by:

Institutional investors who take account of ethical, social and environmental criteria in making investment decisions.

Companies who use our research to assess their own environmental and social strengths and weaknesses and as a means of benchmarking against competitors.

Consultancies and other organisations, who regard our analyses as a reliable source of data and incorporate them into their own work.

There are now a number of investment funds on the market which have recourse to research based on oekom's corporate responsibility approach: For example all ethical funds of SEB Invest, Metzler Investment, SüdKA, and Sparkasse Oberösterreich. Furthermore, increasing numbers of investment companies such as Kepler Fonds and Raiffeisen KAG as well as numerous institutional investors, most notably from the clerical area, are using our research to screen their investment portfolios according to ethical criteria.

oekom research has its roots in the area of environmental and social research. The company is completely independent and not part of a financial institution. oekom research is owned by about 40 primarily private but also church investors. The company's independence guarantees maximum credibility of the research results since they are subject to the rating agency's demands only.

The quality of the assessments depends to a great extent on the competence of the analysts. oekom research's team is composed of highly-qualified employees from different disciplines. Alongside economists and engineers, natural and social scientists deal with the assessment of companies and countries. Our team is supported by a database that was developed especially for this purpose and which is updated and expanded constantly.

In the analysis and evaluation of companies and countries, oekom research operates within a network of environmental and social organisations and independent experts around the world. The scope ranges from internationally recognised NGOs like Transparency International and Greenpeace to renowned research institutes like the Eco-Institute in Freiburg.

In addition, oekom research is supported by an independent advisory board. Its members are distinguished partners from the fields of economics, science and environment:

Prof. Dr. Johannes Hoffmann - Johann Wolfgang Goethe University Frankfurt  
Dr. Walter Homolka - Deutsche Bank Cultural Foundation (Kultur-Stiftung der Deutschen Bank), Frankfurt am Main  
Prof. Dr. Martin Jänicke - Institute for Environmental Policy, Free University Berlin  
Thomas Korbun - Ecological Economic Research Institute (Institut für ökologische Wirtschaftsforschung, IÖW), Berlin  
Dr. Andreas Kraemer - Ecologic, Berlin  
Dr. Christel Möller - Federal Ministry for Economics and Technology  
Prof. Dr. Gerhard Scherhorn - Wuppertal Institute for Climate, Environment, Energy  
Dr. Manuel Schneider – Projektbüro !make sense!, Munich  
Dr. Christoph Schwingenstein - Environmental Academy (Umwelt-Akademie), Oberpfaffenhofen  
Prof. Dr. Bernd Wagner - Augsburg University  
Daniel Wiener - ecos.ch AG, Basle  
Dr. Angelika Zahrt - German Section of Friends of the Earth (Bund für Umwelt und Naturschutz, BUND), Bonn

### 3. The Corporate Responsibility Rating

The Corporate Responsibility Rating (CRR) is based on the world's most comprehensive set of criteria for ethical assessment of companies – the 'Frankfurt-Hohenheim Guidelines'. It includes more than 800 criteria that are combined in three areas of corporate responsibility:

the natural environment (environmental sustainability)  
persons affected by corporate activities (social sustainability)  
society and culture (cultural sustainability)

Within the process of transferring the guidelines into an applicable system for the CRR, oekom research has identified 200 single criteria. This makes the CRR one of the world's most extensive rating systems (8). From the range of these 200 criteria, oekom research chooses those with the highest selectivity and relevance to analyse an industry.

Following the tradition of a rating agency, oekom research attaches great importance to an intensive co-operation with the companies during the rating process. The most important findings of an assessment are published in the German- and in English-language media. Therefore, oekom research's assessments reach a wide circle and start up processes that animate companies to optimise their environmental and social performance.

The CRR comprises two equally weighted components: the Environmental Rating and the Social Cultural Rating.

#### Figure 1: Structure of the Corporate Responsibility Rating

##### 3.1 Information gathering

Within the framework of the Corporate Responsibility Rating the relevant information is gathered at the companies assessed as well as at independent experts:

Analysis of company information  
Internet and database research

Media screening

Comprehensive company questioning via questionnaire and interviews

Comprehensive consultation of experts from science and international NGOs

### 3.2 Areas of investigation of the Social Cultural Rating

Management

Corporate mission statement and goals

Reporting

Participation

Working Hours, e.g. in line with ILO-Standards, daily and weekly working hours, holidays, overtime arrangements

Job Security, e.g. mass layoffs

Remuneration, e.g. health insurance and pay during sick leave, wage level in developing countries

Health, e.g. average number of days of sick leave, number of accidents, non-smoking offices

Equal opportunities, e.g. foreigners, ethnic minorities, disabled persons

Standards in Non-OECD countries

External stakeholders

Suppliers, e.g. compliance with ethical and social standards, corporate monitoring of compliance with these standards

Customers, e.g. product responsibility

Corporate Governance

Community, e.g. contribution to maintaining cultural diversity in the region

Foreign countries (especially in emerging and developing countries), e.g. conduct towards countries in which, according to Amnesty International, particular human rights abuses occur

Cultural adaptation

Approach towards victims of corporate behaviour, e.g. victims of forced labour or of Nazism

Trade relations, e.g. anti-trust, corruption

### 3.3 Areas of investigation of the Environmental Rating

Environmental Management

Corporate mission statement and goals

Environmental program

Input-output balance

Eco-controlling

Reporting

Environmental standards abroad

Partnerships

Business trips

Environmental procurement guidelines

Products and services

Environmental product and service development actions and goals such as (sector-specific):

Reducing consumption of non-renewable resources

Reducing level of harmful emissions

Use of environmentally sound materials

Avoidance of harmful substances

Reusability and recyclability

Durability



Eco-efficiency

Energy consumption

Water consumption

Volume and type of waste

Waste water

Atmospheric emissions, e.g. CO<sub>2</sub> , SO<sub>x</sub> , NO<sub>x</sub>

### 3.4 Criteria of negative screening

Each company is screened on activities in the following controversial business areas resp. controversial business practices:

Alcohol

Biocides

Chlororganic mass products

Embryonic research

Furs

Gambling

GMOs

Military

Nuclear power

Pornography

Tobacco

Animal testing

Child labour

Controversial environmental practices

Alleged / Proven business malpractice

Violation of human rights

Violation of labour rights

### 3.5 Evaluation

To ensure constant objectivity when assessing a company, oekom research has developed a guidelines with explicit guidelines for the evaluation of each criteria. In accordance with a defined weighting, the results of the assessment of the 200 different criteria are consolidated into 40 subareas. The compilation of these sub areas form in turn six main areas of investigation. Finally two distinct ratings emerge: the Environmental Rating and the Social Cultural Rating – the two major components of the Corporate Responsibility Rating.

The performance of a company is evaluated on a twelve-point scale ranging from A+ to D–:

A = The company shows extraordinary performance

B = The company acts widely progressive

C = The company implemented basic measures

D = The company shows little engagement

The performance rating makes clear to the investor the extent to which the company implements relevant industry-specific requirements in the areas of cultural, social and environmental compatibility.

In addition, it produces a sectoral comparison ranking the companies investigated. This best-of-class rating, as it is called, enables the investor to judge a company against its competitors. It may occur, for example, that a company scores only a moderate performance rating of C+ overall, but stands in second place in the sectoral ranking and thus achieves a very good Best in Class Rating.

## Figure 2: Evaluation Scheme of the Corporate Responsibility Rating

### Use of the CRR by institutional investors

This combination of absolute and relative assessment gives investors considerable room for manoeuvre in terms of optimising their portfolio. They may, for example, decide to invest only in securities which have a performance rating better than C+. However, they may also select only those securities that are among the top 25 per cent within their sector. Naturally, any combination of the two approaches is possible. The integration of special sector-specific factors, e.g. the setting of stricter criteria for companies in the oil and gas industry than, for example, for telecommunication companies, can also be stipulated. The composition of the portfolio can be added to by applying investor-specific exclusion criteria or by positively selecting 'sustainable pioneering companies' from Potentials Research.

Ideally, the process of selecting securities according to Corporate Responsibility Research criteria, taking into account investor-specific exclusion criteria, would continue as follows:

## Figure 3: Selection process

The recommended security portfolio, which may comprise shares and bonds, i.e. corporate loans and government loans, in any proportion according to the risk-return preference of the investor, is then ready for investment by the investment management company which the investor teams up with.

### 3.7 Double dividend through ethical investment

The experiences of the last few years have shown that such an investment approach is appropriate for satisfying both the ethical and the financial expectations of investors. Firstly, the involvement of an independent rating agency gives the investor the assurance that the ethical criteria really are being applied and adhered to. Secondly, an investment approach that is based on the principle of ethical or sustainability rating is capable of producing a yield that is at least equal to that of a conventional investment, if not better. According to a number of studies (9), there is a positive link between financial performance and sustainability performance that may be explained as follows:

Good sustainability performance leads to good financial performance: value is added in the long term by building sustainability criteria into the corporate strategy, e.g. costs are reduced through greater energy and raw-material efficiency, new areas of competition are opened up or the company's image enhanced.

Good financial performance leads to good sustainability performance: companies with higher profits can afford more environmental protection and better social standards.

Good management leads to better financial and sustainability performance: companies with better sustainability performance are distinguished by having better management overall, which also results in better financial performance.

This positive correlation between financial and sustainability performance is confirmed once again. A January 2002 study by oekom research AG – conducted with the support of Delbrück Asset Management – examined the relationship between the trend in a company's share price and the company's performance in the Corporate Responsibility Rating. Eleven sectors that had been previously been fully analysed by oekom research and which included a total of 192 major international companies were looked at. The sectors covered were the automotive industry, banking, energy supply, retailing, IT, media, food and consumer goods, oil and gas, telecommunications, insurance and water supply. The companies were divided into two groups of equal size and balanced within their group:

CRR Active: Companies with an above-average Corporate Responsibility Rating in their sector

CRR Passive: Companies with a below-average Corporate Responsibility Rating in their sector

The movement of the share price was then calculated for both groups over three different periods of time: one, two and three years respectively. The results show that the CRR-active group outperformed the CRR-passive group in all the periods examined:

### Tabelle Jahresvergleich einfügen

Ethical or sustainability investment, however, has an even greater effect: it sends crucial signals to companies to keep improving their performance in environmental and social areas. The more investors take sustainability aspects into account in their capital investments, the stronger this 'ethical competition' becomes. It can make a substantial contribution toward establishing sustainability investment as a guiding principle in companies, thereby significantly closing the gap between the observance of ethical requirements and the pursuit of economic goals. For in the long term, only ethically compatible action is also economically successful: companies that harmonise economic, environmental and social goals are not only fulfilling their responsibility to society in a globalised world economy but are also achieving greater competitive advantages and significantly growing in value as a consequence.

#### Annotations:

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Some selected websites

CRIV e.V.: [www.cric-ev.de](http://www.cric-ev.de)  
FNG Forum nachhaltige Geldanlagen: [www.forum-ng.de](http://www.forum-ng.de)  
oekom research AG: [www.oekom-research.com](http://www.oekom-research.com)  
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Universität Stuttgart-Hohenheim: [www.uni-hohenheim.de](http://www.uni-hohenheim.de)  
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