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# CSR Index



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# 2015

# CSR Index 2015

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# Preface

Michael Møller  
United Nations Under-Secretary-General  
Acting Director-General, United Nations Office at Geneva

When the Global Compact was launched in Davos in 1999, it ushered in a new era in corporate social responsibility. Since then, much has been achieved in integrating internationally-agreed norms and values in business, and relations between the United Nations and the private sector have been recalibrated.

We are now again at a cross-roads where we need to reassess and strengthen the tools at hand so that we together can build a truly inclusive global economy - an economy that delivers lasting benefits to people, communities and markets.

Throughout 2015, the international community will define far-reaching policy agendas for sustainable development, with the Sustainable Development Goals and a new climate change agreement at the core. Effective implementation of this shared vision of transformative, inclusive development will to a large extent depend on a responsive private sector that fully embraces sustainability as the bedrock of business practices, reporting and auditing.

Recognizing this reality and collective challenge, a group of industry leaders and representatives of international organizations have been working together to develop an innovative tool that can overcome the limitations of current evaluation systems and allow companies to be ranked on their sustainability performance in a transparent manner: a new universally-accepted CR reporting standard – the Global Sustainability Index (GSI).

The initial plans and ideas have been very positively received - both by business leaders and by the world of international organizations - and a concept has been framed. The GSI should be a multi-stakeholder, not-for-profit initiative, embraced by the United Nations, and housed in a foundation whose goal is to provide an estimation of companies' sustainability performance. The GSI would develop tools to provide guidance and benchmarking to companies and

stakeholders, including investors, so to encourage progress and acknowledge sustainable business practices. Bottom-line success would be the driving force.

Importantly, the GSI would help to overcome the challenge of intangible assets in accounting and integrated reporting. Research suggests that 50% or more of corporate value is attributable to intangible assets. Yet, the ability to incorporate intangible assets in current accounting frameworks appears to be limited and, as a consequence, the value relevance of accounting information has deteriorated. The GSI would address this deficit by fostering integrated reporting as it provides for a common sustainability reporting standard - acknowledging that environmental, social and governance factors account for a substantial part of thus far un-disclosed corporate value.

The GSI would complement and enhance other recent efforts to improve reporting, including the new International Integrated Reporting Framework launched by the International Integrated Reporting Council in December 2013, and the EU Commission's proposals for disclosure of non-financial information and for mandatory CSR reporting.

By placing sustainability squarely at the heart of good business practice, the GSI holds potential to help all of us achieve a more sustainable global economy. As a broader and more sophisticated mechanism to review and compare performance, it would add value in our efforts to monitor implementation of the entire post-2015 development agenda, not least the Sustainable Development Goals. By ordering and aligning data, it would help both businesses and consumers make sense of the growing volumes of information and could facilitate a more constructive exchange of lessons learned at both global and local levels.

The United Nations stands ready to bring together the many relevant stakeholders and to continue facilitating the initial discussions on how best to capitalize collectively on this potential - in the service of a better world for all.

# Chapter 1

## The United Nations Global Sustainability Index

Francis Quinn Ph.D.

Director of Sustainability Technologies, Workiva, USA

### Introduction

Trust is vital for society and for the global economy to function successfully and efficiently given the fast pace of change in the world today. The economic crisis that began in 2008 continues to challenge us today in part due to (a) the diminished sense of trust between businesses and their stakeholders, and (b) the lack of trust in the data on which businesses report performance and make decisions. Today's trust is cautionary: As you know, the public opinion slogan says: "We will trust you if you let us verify".

Verification says: "Show me the data". The performance of companies in the area of sustainable development are currently evaluated using the data provided on their website, in their Annual Report and in their Sustainability/CSR Report. Rating agencies rework and interpret the elements provided using criteria and methodologies they have developed in-house to rank companies' results. It is widely recognized that the approach adopted by rating agencies presents a number of significant shortcomings.<sup>1</sup>

Not surprisingly the output from these rating agencies is of limited value to both the companies concerned and its stakeholders, including the financial sector in search of sustainable investment opportunities.

This book presents the rationale and functionalities of a robust global sustainability index that overcomes the limitations mentioned above and allows corporates to be ranked in a transparent and pertinent manner.

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<sup>1</sup> <http://www.sustainability.com/projects/rate-the-raters> ; <http://ratesustainability.org> ; <http://www.croassociation.org/files/s%20Narrative%2011-12-13.pdf>

The goal of the index is to demonstrably increase trust in corporate and business sustainability data and, importantly, allow companies to be compared with others in the same sector; driving consciousness and investment. To this end, the index will benefit business leaders' decisions as well as economic and political relations, and consequently the global economy—not to mention society as a whole.

## What is the rationale behind CSR?

The emergence of “Stakeholders” is one of the most important evolutions in the business landscape in recent times and has important implications for how business performance is perceived and evaluated. Stakeholders come in all shapes and sizes, and can be directly as well as indirectly associated with a business. They have a lot of questions. They want to know, many would argue have the right to know, how a company goes about its business today and what the future may hold. Questions are varied and include: Where does the money go? Where does raw materials come from? Is this new product safe? Is R&D conducted in an ethical manner? Who oversees what goes on at the company?

Leading companies recognize that it is in their own vested interest to acknowledge stakeholder queries and see CSR and its underlying rationale very differently from their predecessors. They recognize two complementary aspects to CSR that are not mutually exclusive: risk management and business growth opportunities.<sup>2</sup>

In fact, CSR is becoming a business imperative regardless of whether companies operate in developed or emerging markets. The expectations of both customers and investors are evolving as more attention is paid to issues such as environment, societal impacts, and governance.

If corporates are considered by many to be part of the sustainability problem, the good news is that many also see them as part of the solution. Indeed, in order to mitigate risk and grow their business successfully and sustainably, companies should keep the following key fundamentals in mind:

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<sup>2</sup> Francis Quinn Transitioning CSR from “nice to have” to “must have”. CSR Index 2013 InnoVatio Publishing, Zurich, 2013.

(I) The first is that they operate in markets and societies, and therefore they should consider it as natural to report CSR activities in a transparent and sincere manner to stakeholders. Keep in mind that employees are consumers and citizens that at times have conflicting wants and needs. Consumers' expectations tend to focus on a company's products and services and the benefits that they provide. However, at the same time, appropriate legislation and regulations for businesses, as well as the economic and social wellbeing of people, are preeminent for citizens. It is important to note that in a multinational group, approximately three-quarters of the staff are of diverse nationalities and cultures. In other words, the employee, who is also a citizen in his or her own right, will, at some point, raise the question of social responsibility of their company when it operates in their own country.

While it is true that employees are also citizens, a new socio-economic component, driven by shifting demographics and the burgeoning problems associated with retirement, is having an increasing effect on the sustainability of the capitalist system and how it impacts society. The survival of former employees who have become retired citizens depends on the performance of pension funds that are quintessential investors pushing the current financial model of high returns and short-term business thinking. Moreover the number of supplementary pensions also depends on the sustainability of the companies that employees worked for and/or the sustainability of public management of social security contributions. In other words, retirees will weigh increasingly on political decisions to achieve high and perennial financial returns.

(II) Secondly, it is imperative for corporates to establish, maintain, and protect the license to operate in the market place – otherwise there is no business, no revenues, no profits, and no business growth.

(III) Lastly, all of this has created a new paradigm in terms of how corporates should report on their sustainability performance and communicate with stakeholders.

Companies are facing a growing demand for transparent and accurate data on corporate CSR from financial markets looking to evaluate their ability to grow and manage risks. That said, Media Tenor research suggests that

the corporate sector has been inconsistent in keeping investors on track.<sup>3</sup> Companies have failed to consistently highlight their vision and progress towards realizing their CSR goals. Indeed, Chairpersons, CEO's and CFO's seldom take advantage of opportunities to discuss the latest progress (or risks) in the field of sustainability in their annual reports. Furthermore, among Blue Chip companies, less than 10 percent report on materiality from a societal perspective preferring to focus almost exclusively on the company itself.

Annual reports talk about the topics that companies feel are important and CSR activities typically only represent 5-10 percent of total content. Specificity in annual reports is also a real challenge for many companies. CSR performance is a good example: companies are rarely specific as to where their CSR activities occur. Clearly, this lack of specificity impacts the credibility and level of transparency of the initiatives. When location is specific, it is predominantly in the home country. While CSR activities in the home market are key and can be drivers for growth, this is the era of globalization – with the majority of economic growth currently concentrated in emerging nations – many stakeholders, in particular local stakeholders, want to know about CSR activities in their locality.

The Media Tenor research suggests that many multinational firms are missing out on a real opportunity to engage their stakeholders in a transparent and meaningful dialogue and, by default, leaving it to others to tell their stories with all the risks that this inevitably entails. Companies are not making a convincing case about who they are, their values and how they operate in their annual reports. News media are forming their own opinions, and the lack of clarity on successes, failures, and risks in these reports has led to a situation where the media largely ignore these documents that should be central to corporate image and reputation building with stakeholders, including investors.

Perhaps the most intriguing conclusion from the Media Tenor study is the fact that the stock price of companies with a clearly articulated CSR strategy generally outperforms those who have yet to make the transition to dialogue and transparency. Indeed, Deutsche Bank research found a marked correlation between strong environmental and social performance in companies on the

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<sup>3</sup> Stefano Radaelli and Roland Schatz Creating a truly global index that maps sustainability. Media Tenor Reputation Lab Davos, 24th January 2014.

one hand and a lower cost of capital on the other, something that is clearly of interest to any company trying to grow their business.<sup>4</sup>

A recent meta-analysis based on 190 academic papers, and other sources, examined the relationship between sustainability and corporate operational performance, the cost of capital (both equity and debt), and stock prices.<sup>5</sup> The meta-analysis concluded that 90 percent of the studies on the cost of capital show that sound CSR standards lower the cost of capital of companies. In addition 88 percent of the research shows that solid CSR procedures result in better operational performance of firms that ultimately translates into cashflows. Not surprisingly therefore 80 percent of the study shows that stock price performance of companies is positively influenced by good CSR practices.

Clearly in the globalized economy there is a new paradigm for reporting both corporate and business performance and results. Financial reporting – with its strengths and weaknesses – is well established. But increasingly, the big question on investors' minds is “How long is all this going to last?” For example, how many companies listed on the NYSE on its first day still exist today? How many well-known iconic brands have disappeared? Where are Pan Am, ICI, Hummer, Wang Laboratories, Bowery Savings Bank today? It took 20 years to replace one third of the Fortune 500 companies listed in 1960 and four years for those listed in 1998.<sup>6</sup>

Chief Sustainability Officers (CSOs) frequently carry out roadshows to investor communities around the world to discuss data, results and the roadmap to future growth, supported by KPIs. That said, investors tend to lag behind companies when it comes to integrating sustainability into their capital allocation decisions. This is partly due to the lack of relevant information. However, this is changing.

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<sup>4</sup> Sustainable Investing: Establishing Long Term Value and Performance Deutsche Bank Climate Change Advisors, June 2012.

<sup>5</sup> Gordon Clark, Andres Feiner and Michael Viehs From the Stockholder to the Stakeholder: How sustainability can drive financial outperformance. University of Oxford and Arabesque Partners, September 2014.

<sup>6</sup> Commission of the European Communities, Green Paper: Entrepreneurship in Europe (2003).

A recently published report on trends in sustainable investing concluded that there are over \$6.5 trillion worth of sustainable assets currently under management in the US – or 18 percent of the total. This represents an increase of 76 percent since 2012.<sup>7</sup>

A recent PWC study concluded that four in five investors considered CSR performance in one or more investment contexts in the past year – with risk mitigation the primary motivation.<sup>8</sup>

More and more CSR is seen as a new approach to assess the vitality of companies that is becoming increasingly relevant on a global scale for the in depth evaluation of investment and development opportunities. CSR is of paramount importance because investors faced with the uncertain evolution of the global financial crisis are now looking to evaluate not only the short term financial performance of companies, but also their real viability, in other words their ability to grow in the context of new challenges and manage new risks generated by a fast changing world.

According to the PWC study investors are generally not happy with corporate reporting around CSR because they are not getting the information they need. Investors want to be a part of the CSR dialogue and they want direct engagement with the companies in which they invest.

The CSR approach permits analysis of companies' capacity to develop innovative technologies, secure their access to raw materials essential to their business, and manage economic recession trends as well as their impact on sustainable consumption. Not surprisingly, it is critical that this approach be considered by companies operating in emerging countries (including China, India, and Brazil) where national values are strongly supported by local authorities and appear in the form of political pressure framing new social and environmental regulations.

Clearly the sustainability of any business is linked to the nature of its specific adaptations to environmental challenges and its ability to avoid through

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<sup>7</sup> <http://www.ussif.org/sribasics>

<sup>8</sup> Kayla Gillan Sustainability goes mainstream: Insights into investor views PWC Investor Resource Institute May 2014.

constant innovation the tumult of the current western economic and societal model. In that sense the current high rates of unemployment among young graduates in western countries does not bode well.<sup>9</sup> Neither does widespread blindness to climate risk.

It is therefore becoming increasingly important for companies to clearly define what they mean by CSR and how it is being leveraged for their business growth. The sustainable development of a company is driven by sustainable innovation and the sustainable consumption of its products and services that leads to sustainable business growth. This is a strategic matter for companies and their stakeholders: How to manage this new paradigm of challenges?

## Rating Agencies

From a business perspective, in today's fast-changing world, companies are facing multiple new environmental, social and cultural challenges that in large part determine their capacity to establish, maintain and protect their business, and to deliver sustainable growth to benefit all.

The achievements of corporates in the area of sustainable development are currently evaluated using the data provided on their website, in their annual report and in their CSR report – with a long term underlying trend to merge these into an integrated report that discloses in one reference document the companies financial and extra-financial information.<sup>10</sup> Rating agencies re-work and interpret the elements gathered using criteria and methodologies they have developed in-house to rank companies' performance and results. According to some estimates there are approximately 100 of these agencies worldwide.<sup>11</sup>

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<sup>9</sup> <http://www.theguardian.com/world/2013/jul/01/jobless-europe-young-qualified>

<sup>10</sup> Robert Eccles and Michael Krzus The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality Wiley, Chichester, 2014.

<sup>11</sup> <http://www.sustainability.com/library/rate-the-raters-phase-one#.VJeISriNAA>

The approach adopted by rating agencies presents a number of shortcomings, including:

- Inadequate transparency on evaluation criteria and methodology
- High degree of inter-agency divergence with respect to a company's evaluation and ranking
- Analyses are sold and customers can include the evaluated companies creating a potential for conflict of interest
- Absence of media impact and reputation analysis
- Essentially backward-looking evaluations that provide little prognosis

Rating agencies gather, analyze and repackage CSR information. The numbers gathered certainly have meaning. The big question though is not about meaning – it's about relevance. In other words, how pertinent is the information presented to stakeholders, including investors, and how useful is it to them in forming opinions and/or making decisions?

In a world where corporates frequently operate across multiple geographies, markets and societies with different characteristics, jurisdictions, cultures and values, evaluations based on averaged, global CSR performance KPIs are essentially meaningless. A company may have relatively low total GHG emissions, but if the major contribution is in a country where sensitivity is high to GHG emissions and its role in climate change then that company may well encounter reputational (or other) difficulties that could impact its operations locally. A global company may comply with all laws regarding its tax payments and still find that its reputation/brand is tarnished in important markets.<sup>12</sup> Compliance with laws is a minimum standard, but legal tax profit maximization by firms exists on a global scale. States can no longer tolerate economically; companies that make their profits at home, but who do not pay taxes. And quite naturally this can lead them to call into question the license to operate.

A global company may think it complies with all laws regarding its sales and marketing practices, but discover that its local employees have a different viewpoint and subsequently finds its license to operate under serious threat.<sup>13</sup>

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<sup>12</sup> <http://www.bbc.com/news/uk-politics-23019514>

<sup>13</sup> <http://www.theguardian.com/business/2014/jul/23/glaxosmithkline-china-scandal-profits>

## Materiality

There are several initiatives underway to reinforce the notion of materiality in CSR disclosures by corporates.<sup>14</sup> The Global Reporting Initiative (GRI) definition of materiality is:

“Material issues for a reporting company should include those topics that have a direct or indirect impact on an organization’s ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.”

In essence, materiality is a method by which sustainability topics are prioritized. A formal materiality analysis generally combines findings from stakeholder engagement with an assessment of the organizational priorities, identified during strategy development. Put simply, reporting on material topics means talking about those topics that are material (important) to the success and sustainability of the business.

Today it is common practice for corporate sustainability reports to include materiality matrices consisting of topics that can have a significant impact on the organization’s performance. Typically topics are presented in terms of relevance to the company (horizontal axis) and relevance to stakeholders (vertical axis).

Structuring the topics in this way gives corporates a clear view on what matters most to them and their stakeholders. In addition, the process of constructing a materiality matrix also helps companies to ensure that they are focusing on the right KPI’s and that the CSR agenda is properly aligned with the most important material issues.

That said there are a number of issues surrounding the use of some variants of the materiality matrix that can lessen the relevance (and even the utility) of the information provided.<sup>15</sup>

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<sup>14</sup> <https://www.globalreporting.org/reporting/G3andg3-1/guidelines-online/TechnicalProtocol/Pages/MaterialityInTheContextOfTheGRIReportingFramework.aspx> ; <http://www.sasb.org/materiality/important/>

<sup>15</sup> [http://www.sustainablebrands.com/news\\_and\\_views/articles/are-materiality-matrices-really-material](http://www.sustainablebrands.com/news_and_views/articles/are-materiality-matrices-really-material)

There is a lot of confusion about the differences between the new Sustainability Accounting Standards Board (SASB) standards and the guidelines set out by the GRI, in particular the recently introduced G4 guidelines.

The SASB is developing industry and US-specific sustainability disclosure standards for over 80 different industries. Its goal is to see mandatory inclusion of the standards within the form 10-K, which is a US specific, investor-focused document. This means that companies registered with the US Securities and Exchange Commission (SEC) would also need to adhere to the SASB requirements. The standards for the first industry groups have recently been released and the remaining industry standards will be progressively developed.<sup>16</sup>

The fundamental difference between GRI and SASB lies in their different audiences: GRI is stakeholder based, while SASB is specifically investor based. Reports following the GRI guidelines are an expression of how companies identify, manage and react to the impacts on the stakeholders. Conversely, reports following SASB standards are an expression of the organization's performance in particular as that affects its financial situation.

Since GRI's G4 is stakeholder focused, its definition of materiality is consequently based on the impacts on stakeholders. As a result, the central element of G4, its materiality assessment, is heavily dependent on stakeholder engagement. Moreover, G4 requires corporates to capture impacts of entities not owned or controlled by the organization (for example human rights in the supply chain). In order to establish these impacts, stakeholder engagement is, again, of pivotal importance.

On the other hand, the main purpose of the SASB standards is to retain and attract investors. Therefore the SASB standards are much more focused on the end-product (the report), rather than the process behind it.

Clearly the SASB standards do not replace the GRI guidelines. The reporting mechanisms and the purposes behind the two standards differ significantly. There are benefits in both approaches and therefore we can expect that in the future many organizations will use the GRI guidelines, alongside the SASB standards.

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<sup>16</sup> <http://www.sasb.org/standards/download/>

Sustainability reporting guidelines and standards like these may eventually go some way towards improving the quality of the information disclosed by corporates, but do not change the situation regarding the way rating agencies subsequently use this information to produce a ranking. In addition, it is important to remember that what constitutes good CSR practice in one region may not be held in such high esteem in another. The idea that there is one, universal CSR is utopic. In fact, current key performance indicators reveal very little about how a global corporation is managing risk and how well it is positioning itself for new business opportunities.

The nature of the relationship between corporates and stakeholders is being transformed, and the old dialectic no longer works. Indeed, the output from rating agencies no longer reflects what is really at stake between companies and the societies in which they do business – the societies upon which they rely for their revenue and for their license to operate. Not surprisingly therefore the output from these rating agencies is of limited value to both the companies concerned and their stakeholders, including the financial sector in search of sustainable investment opportunities.

### Asking the right questions

Why do rating agencies develop backward-looking evaluations that provide little prognosis? One reason why analysts shy away from talking about the future is because historically economic, social and demographic predictions, among others, tend to be incorrect—see Table 1.

**Table 1. A short selection of false predictions.**

“There’s a 55-45% chance right now that disintegration [of the US] will occur,”

**Andrew Osborn** *As if Things Weren’t Bad Enough, Russian Professor Predicts End of U.S.*, The Wall Street Journal, 29<sup>th</sup> December 2008.

“The use of a growing array of derivatives and... more-sophisticated approaches to measuring and managing risk are key factors underpinning the greater resilience of our largest financial institutions... Derivatives have permitted the unbundling of financial risks.”

**Alan Greenspan**, to the Federal Reserve Bank of Chicago’s Forty-first Annual Conference on Bank Structure in 2005.

**James Glassman and Kevin Hassett** *Dow 36,000: The New Strategy for Profiting From the Coming Rise in the Stock Market*, Three River Press, 1999.

"By the year 2000 the United Kingdom will be simply a small group of impoverished islands, inhabited by some 70 million hungry people... If I were a gambler, I would take even money that England will not exist in the year 2000."

**Paul Ehrlich**, speaking to the British Institute For Biology in 1971.

"If present trends continue, the world will be... eleven degrees colder by the year 2000. This is about twice what it would take to put us in an ice age."

**Kenneth Watt**, *Earth Day*, 1970.

"We can close the books on infectious diseases".

**William H. Stewart** speaking to the US Congress in 1969.

"Democracy will be dead by 1950".

**John Langdon-Davies**, *A Short History of the Future*, 1936.

"Stocks have reached what looks like a permanently high plateau."

**Irving Fisher**, 26<sup>th</sup> October 1929 (3 days before black Tuesday).

In some cases this is due to the application of provisional and/or unreliable methodologies. For example, the use of GDP to determine how well a country is developing is now widely recognized as being seriously flawed.<sup>17</sup>

Consider the situation that France is in as it works to manage its burgeoning national debt. Despite having a national debt in the order of 2000 billion euro, and rising, the interest rate at which France is borrowing money to finance its debt is at an all time low.<sup>18</sup> In certain instances the interest rate is even negative – some institutions are paying France so that they can lend it money.<sup>19</sup>

In November 2014 Standard & Poor's Rating Services gave a credit rating of AA to France.<sup>20</sup> As of writing Moody's rated France's government bond as Aa1 while noting that "the country retains significant credit strengths, including the size and wealth of the economy, as well as its affordable debt burden".<sup>21</sup> Both agencies did however express concerns about "the pace of structural reform".

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<sup>17</sup> [http://www.stiglitz-sen-fitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf)

<sup>18</sup> [http://france-inflation.com/dette\\_publique\\_france\\_1950.php](http://france-inflation.com/dette_publique_france_1950.php) ; [http://france-inflation.com/taux\\_10ans.php](http://france-inflation.com/taux_10ans.php)

<sup>19</sup> [http://www.liberation.fr/economie/2013/04/30/pourquoi-paye-t-on-la-france-pour-lui-preter-de-l-argent\\_900040](http://www.liberation.fr/economie/2013/04/30/pourquoi-paye-t-on-la-france-pour-lui-preter-de-l-argent_900040)

<sup>20</sup> <http://www.wsj.com/articles/s-p-cuts-frances-outlook-affirms-double-a-rating-1412969522>

<sup>21</sup> [https://www.moody.com/research/Moodys-maintains-negative-outlook-on-Frances-Aa1-government-bond-rating--PR\\_308838](https://www.moody.com/research/Moodys-maintains-negative-outlook-on-Frances-Aa1-government-bond-rating--PR_308838)

How can this kind of scenario be considered sustainable by French authorities, or by rating agencies, and even lenders for that matter? Do they all have infallible faith in the quality of French political leadership and their ability to manage the French economy, as well as the ability of French industry to develop new, significant revenue streams through innovation? Perhaps they do, but some of the answers also probably lie in the amount of savings put aside by French citizens – currently estimated at approximately 12000 billion euro or six times the national debt.<sup>22</sup> In other words there is no fear of France defaulting on its obligations to creditors because the authorities can always introduce a tax and siphon off some percentage of the savings of ordinary citizens.<sup>23</sup> France and other nations have even done so in the past. So while it is politically incorrect to say so, the truth is that France is a good investment, essentially because its citizens have taken the precaution of putting money aside for the future that the authorities can tap into if necessary.

The point is that the rating agencies do not take into consideration criteria pertinent to their analyses and predictions for future performance – sometimes because they are simply unmentionable.

It is worth remembering that Standard & Poor's maintained Lehman Brothers' investment-grade rating of A until six days before the demise of the firm, and Moody's downgraded Lehman one business day before it collapsed.<sup>24</sup>

Irrespective of the nature of the area under study (technological, economical, political, social) it goes without saying that the most important first step in making an evaluation or prediction is to select the most pertinent criteria. It's all about asking the right questions, even if they are embarrassing or politically incorrect. The BRIC countries were once grouped together as a class of emerging economies with common indicators for what was material to sustained economic development and what was not.<sup>25</sup> Today fewer and fewer

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<sup>22</sup> [http://www.lemonde.fr/economie/article/2013/03/26/l-epargne-des-francais-objet-de-toutes-les-convoitises\\_3147908\\_3234.html](http://www.lemonde.fr/economie/article/2013/03/26/l-epargne-des-francais-objet-de-toutes-les-convoitises_3147908_3234.html)

<sup>23</sup> <http://www.lefigaro.fr/conjoncture/2013/10/09/20002-20131009ARTFIG00524-le-fmi-propose-une-supertaxe-sur-le-capital.php>

<sup>24</sup> <http://www.theguardian.com/business/2013/sep/13/lehman-brothers-was-capitalism-to-blame>

<sup>25</sup> Jim O'Neill Building Better Global Economic BRICs, Global Economics Paper No: 66. Goldman Sachs, November 2001.

stakeholders find the BRIC approach relevant.<sup>26</sup> Those who persist in making evaluations based on unreliable criteria will only have themselves to blame when reality bites.<sup>27</sup> It's not a question of "if", but "when".

## A new approach

With the old dialectic between companies and society no longer working it is not surprising the output from rating agencies is less and less pertinent. The evaluation criteria employed in their methodologies no longer reflect what is truly going on between companies and stakeholders.

The big question is: What are the real criteria that need to be taken into consideration in order to get a better grasp on the situation? Naturally, this is a question for the experts.

Addressing the International Agenda Setting Conference in Lucerne, in November 2012, experts like Alfred Berkeley III, former president of Nasdaq, Dr. Joachim Faber, Chairman Deutsche Börse AG, Ramu Damudoran, Director UN Academic Impact, and Michael Møller, Acting UN Secretary General challenged attendees to develop a global sustainability index that would overcome the serious limitations of current evaluation systems and allow corporates to be ranked on their sustainability performance in a transparent and pertinent manner – and, importantly, to be compared with others in the same sector driving consciousness and investment. In this way companies working to develop win-win scenarios can be clearly identified (and recognized/rewarded) and those attempting greenwashing exposed.

In response to this challenge an international group of stakeholders, supported by experts in various fields including science, business, government and media, came together to establish the operational foundations of the United Nations Global Sustainability Index (UN GSI) – a multi-stakeholder, not for profit, initiative endorsed by the UN whose goal is to provide an estimation of companies' sustainability performance in a transparent and pertinent manner.

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<sup>26</sup> <http://scroll.in/article/670290/Ten-charts-that-prove-BRICS-nations-have-little-in-common>

<sup>27</sup> <http://www.thefiscaltimes.com/Articles/2011/12/27/8-Outrageously-Flawed-Economic-Predictions>

Recognizing that standards based approaches are cumbersome and insufficient on their own, the UN GSI will develop tools that will provide guidance and benchmarking to companies and stakeholders, including investors, that encourage progress, but also put them under pressure. KPIs will be used to estimate the level of sustainability of a company's activities. Concepts such as the planetary boundaries approach, taxonomies and tagged business reporting, and a sustainability currency are all under review. Indeed, the UN GSI will examine the practicalities of creating a well-defined market for sustainability as a tradable good, across regions and industries as well as the entire stakeholder spectrum.

Setting up the UN GSI functionally will require some time as well as considerable financial and human resources to get all the necessary expertise around the table, including multiple PhD's and extensive field work building, testing and validating the index. Clearly bottom line success will be the driving force of the new approach. Strong entry criteria will include the prognosis that sustainable corporates are the ones aiming at win-win rather win-loose relationships with their customers, employees and other stakeholders. That said, existing assessment and measurement approaches are valuable places to look for inspiration, and will be thoroughly examined.

## **In conclusion**

The ensuing chapters of this book will present the visions of recognized experts in their respective fields for the United Nations Global Sustainability Index, the challenges it faces and the progress to date. The UN GSI is not a panacea that will magically resolve in one swift movement all of the difficulties mentioned above. That said, we think that it is a significant step forward in determining which companies are working for win-win scenarios that are sustainable and those who have yet to fully understand the true nature of the market place, and world, in which they operate.



## Chapter 2

### ESG as a Game Changer

Roland Schatz

Founder and President, Media Tenor International AG,  
Rapperswil, Switzerland

While for years it had been a given, that those companies with smart solutions with regards to using cheap access to energy or water would be the most resilient for the future, 2015 will be an eye opener for CEOs: Realising, only those, who positioned themselves in line with ESG or ISO standards and – even more importantly – managed to let their stakeholders know about this, will be the ones winning the “war for talent”. In contrast to energy and water, there is no alternative in place, other than being recognised as global champion, in order to form the best team facing the challenges of positioning a company on a global scale. And in contrast to the past, defining “best team” no longer solely means “best technical experts”, but “best in their area *as well as* best at performing their technical skills inline with ESG standards”.

The finance sector is not facing its ongoing crisis because there is no need for money around the world. The finance sector is about to lose its licence to operate because almost no high school child seems to be interested in building its career in a sector, which is framed in the global media, as worse than the tobacco or the nuclear power industry (Trust Meltdown 1 and 3, InnoVatio Publishing 2009 and 2011). And even ahead of the Lehman collapse, the Goldman Sachs obviously did not attract the best, otherwise they would have had enough employees – not only in the C-Suite – alerting them that products in the long run need to make sense, not only to the bottom line of their company, but to society. Who wants to work for a company 365 days a year and contribute heavily to profits when at the end of the year, and all the upcoming years, these profits are eaten up because of lost law suites or having governments decide that your top management has to pay another record breaking penalty because some of your team had been faking national, international or global standards – not to mention being know as completely ignorant of any basic ethical principles?

Furthermore, it seems less reasonable from a pay-check point of view: but once you face a situation where your wife is not able to sign a house rental contract because the owner realises that you are a director of a bank, you understand that more is at stake than just driving a Porsche – when nobody wants to sit next to you in this car.

Which leads to the example of Porsche. This company had been best in class in its segment for quiet a while according to the manager magazine biannual reputation rankings. But only once they officially became part of the Volkswagen family, did the masters of creating speedy vehicles receive the cover they needed to continue growing. Not only in regards to new legislative standards given by a society, who deeply believes that those who can afford driving a car should do it in a more or less sustainable way, but also in regards to safety, energy consumption and paying taxes in order to keep the infrastructure in a proper stage (CSR Conference Berlin, 10/2014). These new standards had been grown out of politics by listening to consumers – even those, who would never be able to afford driving a Porsche.

In the past, Porsche – like the vast majority of corporates – was under the impression that they only served a very niche community and because of that, they would simply waste time and money if they listened to the rest. All that Porsche did was what the rules had asked them to do: communication once per quarter, as they were listed at stock exchanges – and even this communication was reduced to financial results. The reasons behind the financial results – which after Wendelin Wiedeking took the helm at Porsche had improved tremendously – were hardly covered (Media Tenor Research Report 123). Not as if Porsche had not mentioned them in their annual reports and press releases, but as the journalists had not referred to them, the management of Porsche was under the impression that this is okay as well. If the journalists do not care, why should they bother?

Until the appetite grew and Porsche was up to buying Volkswagen. Now they tried to change the game from being best in class and serving niches with a niche product, they thought they were good enough to take over a company which is serving all segments. From a CEO point of view, trained in the last century at prime business universities, the case was clear and easy: what had been extremely successfully implemented at Porsche would work as well at

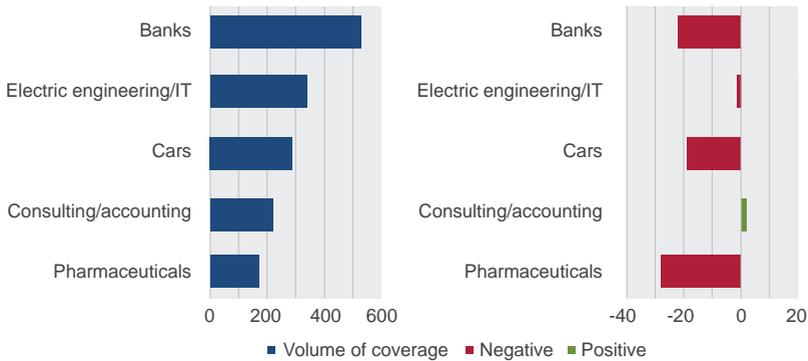
VW. There was just one difference: VW is not only serving all client segments, it is a national icon with a lot of societal interests, which from a distance, seem like “just another management task”. Yet it not only became a full time job, but it was unmanageable for the Porsche management. A lot of details are involved which are not of interest for the readers of CSR 2015, but the take away is this: if one is not already running one’s company right from the beginning according to all standards – including the understanding of ESG standards defined in the 21<sup>st</sup> century – these standards will become what the Alps had been for Hannibal 2000 years ago: a real and impressive challenge. At the same time, when looking at VW one would think that after all the disastrous scandals and headlines they had to overcome (only recall a few of the most recent ones starting with Lopez, the requests from the holocaust survivors and the Brasil prostitutes-Media Tenor Research Report 86, 95 and 134) one would have thought the top managers around the Porsche hero Wiedeking would be able to cope with the challenges. But VW had learned its lessons and almost 25 years ago they started a new strategy: stakeholder relations became more than a task they dealt with simply when there were no other jobs to complete.

CSR became a part of their DNA. And in their desire to learn, they had no problems taking the best from their competitors: Bernd Pitschetsrieder, who had implemented the turn - around at BMW and by doing so, caused a lot of headaches for VW, found himself in the CEO position at Wolfsburg faster than anybody would ever have been able to even consider it as an option – aside of Ferdinand Piech. This did not hinder Piech as a few years later the Bavarian was replaced with the former AUDI Manager, Martin Winterkorn.

These massive and surprising management decisions were backed by stakeholders, who mostly felt that they were not only sufficiently informed, but they were put in a position, where even in those moments where new headlines (good or bad) were being made, they had enough ongoing information and enough experience with being informed afterwards, that the trust-base was solid enough to keep the lines closed among shareholders. This is never an easy task in a company like VW, where a lot of governments and trade union representatives are involved, including financial analysts who love seeing their opinions quoted in WSJ, FT and other opinion leading media, among employees etc. (Media Tenor Research Report 145).

These opinion leading media were not convinced about the way in which the industry was operating in regards to ESG standards:

**Key industries face CSR problems**

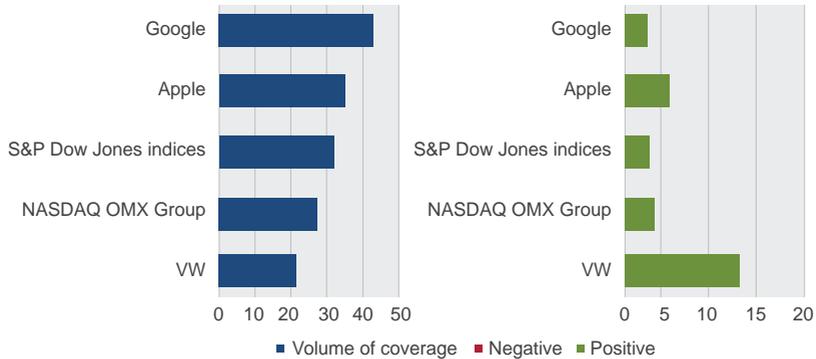


Basis: 3,286 reports on CSR / 52,894 reports on companies in three opinion-leading business media

Looking at the results in the breakdown by industry, it is eye-opening to see the skepticism aimed at all branches: the banking sector for example, is not coming by surprise, except for the fact that this industry, which is praising itself for having hired the smartest people, is still - five years after the finance meltdown - almost incapable of not only finally understanding the societal requests towards any company, but is obviously still far away from addressing their changes in a way, that will allow the media to realise that these changes are far from being understood and embraced by the banking industry itself. But take a look at the others: the IT industry would never see themselves as comparable to the banking sector, but with the NSA scandal unsolved, they start turning into the red. Most importantly however: the automotive industry remains heavily critiqued for not implementing CSR standards quickly enough.

The moment one looks into the specifics, all of a sudden one recognises one company, which is not only among those receiving a lot of media attention around their CSR activities, but at the same time being able to turn journalists; interest from all around the world into a win-win position for the company:

### Some companies excel at CSR however: VW as benchmark



Basis: 3,286 reports on CSR / 52,894 reports on companies in three opinion-leading business media

Results like these are not easy to achieve in times where one is no longer focused on the home market, as there seems to no longer be a 'home' market for global players. Managing these challenges by starting to operate in complicated markets like Japan and China – where Martin Winterkorn is among a group of very few global CEOs whose opinion is heard by all leaders in the country, no matter if government, communist party, university or the business community; continuing to build the trust base in Africa and the Middle East with important shareholders coming from the Gulf region; managing the challenges in Russia, East and West Europe and by keeping VW on track in US and all the Americas. This is already not an easy task from a business point of view, but keeping the stakeholders – with their diverse and very particular interests informed and positively involved – is nothing one can learn from one day to the other.

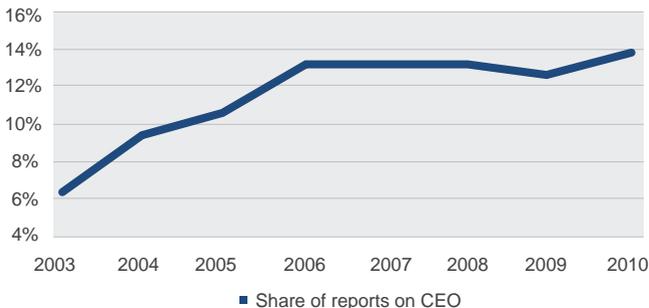
And here seems to be one of major take aways looking into the VW case: they started listening and learning decades ago. VW took the China challenge three decades ago. A lot did not work, but those who listened to Martin Posth at the World Economic Forum workshops in Davos back in the 80's, could realise already back then, that the management members in Wolfsburg were eager to do business in such a way that stakeholder interest was taken into account (InnoVatio 1988). Martin would have said: "there is no competitive position between the two, only if your business approach is embedded in the society's needs will you grow." The fact that he had served most of his own career as

a human relations expert helped significantly when he was appointed board member for the Asia region back in the 80's. VW operated in the same spirit during the apartheid regime and helped overcome it.

Because VW is not only a listed company, but very much run as a family-owned business, the Chairman as well as the CEO, understand themselves as longterm leaders, not to be replaced by shareholders after 3 years, which seems to have become more and more a bad standard among stock listed corporates. And while being in office longer than most of their colleagues within and outside of the industry – and being confronted with an impressive list of failures like Ferdinand Piech – they have never hesitated to accept that the public needs to be informed at all times, even when headlines turn ugly. As they have always understood, communication is the key to growth and the best support to maintain the licence to operate.

Most CEOs have not understood these trends, although the results speak a clear language: in times where journalists want to understand what the C-Suites take and responsibility is on the latest developments, hiding as CEO is no longer an option. There is hardly any media outlet, which is not linking the reporting on actual events with the question about whether or not action A or B is in line with the corporate strategy, with the CSR standards and how all of this fits within the big picture that the CEO tries to paint during the shareholder meeting once per year. These questions are why the overall share in the media coverage went up during the past years, once a company manages to take advantage of the fact that media show interest in writing or reporting.

#### CEO has become normal part of company



Basis: 31,216 / 241,844 reports on the CEOs / other executives and brands DAX 30 in 20 media

Every now and then one still meets senior executives who are under the impression that CSR is not part of their daily responsibilities, and they could take time with these issues once the other tasks on their agenda are solved. But the case of VW nicely underlines why it is important to not see CSR as separated from whatever a company is doing: Remember 1989.

The Wall came down literally a few yards away from the VW headquarters. All of a sudden there seemed to be no more time to discuss CSR-related topics. Before 1989, there had been a strong movement to connect academia and the corporate world by highlighting the fact that companies can no longer operate based on short-term perspectives. But the fall of the Wall cut that discussion from the agenda, not only in the media, but also in the corporate world. Too many old school leaders had the impression that this new situation wanted the old solutions, such as those which had helped create the “German Wirtschaftswunder” after World War II. This basically meant giving the masses a proper currency, getting the logistics done and assuming the rest would follow. But VW took the challenge already back in 1989 and did not stop understanding management as an ongoing compromise between shareholder and stakeholder management. 25 years later they are seen and understood as a true global player, while a lot of CEOs and journalists had been looking down at Wolfsburg for being slow, because it takes longer to build resilient compromises.

At the same time, talking to the HR department in Wolfsburg shows that it is a company which is well positioned in the global competition for the best talents. Even soccer players now consider moving to this part of Germany, where none of the typical attributes of a so called “modern society” materialise (Wirtschaftswoche City Barometer 2014: Wolfsburg is the antipode of New York, Barcelona, Dubai or Paris). But it has a track record – longer than a decade or 2. As so many of the other global champions run in the spirit of family owned companies. Looking at the global map, from where they have been operating for generations, helps to understand why stakeholder value is more than just a term coined in the business schools back in the 80’s.

This is the reason why the initiators of the UN Global Sustainability Index focus on those companies, who not only have a clear understanding but also a rather impressive history in operating based on standards and principles which are

key to building trust and reputation. The two fundamentals for attracting smart leaders is to run the company during the future challenges.



What needs to be changed? The vast majority of these family-run companies are just on the verge of understanding that operating as a hidden champion is no longer working. In order to be able to maintain one's position as world market leader, one has to get rid of the "hidden" in order to not only become a lighthouse to those who every market leader needs as competitor - as well as part of their supplychain - but most importantly operating as a respected knowledge leader who brings better conditions in the changing financial markets, assures a better understanding with the needs on all governmental levels and, last but not least, leaves high potential in becoming interested in a career option to those, who are desperately looking for alternatives after passing their exams.

As Michael Moller, the Acting General Director of the UN in Geneva and the host of the initial meetings for the UN Global Sustainability Index, has already pointed out in the preface: financial markets will move once both transparency - with regards to measuring the so called intangible values - as well as a

better understanding reaches the C-Suite of all corporate sectors of how the Sustainable Development Goals will help the business sector implement what Kofi Annan had written in the first Trust Meltdown 2009: “There are many who rightly see the crisis as the consequence of failure to put economic policies at the service of the common good. In a highly interconnected world beset with shared problems, we cannot afford to get this wrong.”

## Foreword and Editors



**Michael Møller** Acting Head, United Nations Office at Geneva. Møller brings to the position a wealth of experience, having served for more than 30 years as an international civil servant in the United Nations. Most recently he was Executive Director of the Kofi Annan Foundation from 2008 to 2011. Prior to this, he served as the Secretary-General's Special Representative for Cyprus (2006-2008) and Director for Political, Peacekeeping and Humanitarian Affairs in the Office of the Secretary-General (2001-2006), also serving concurrently as

Deputy Chief of Staff for the last two years of that period.



**Francis Quinn, Ph.D.**, a global corporate strategist, recently joined Workiva as Director of Sustainability Technologies. Quinn began his career as research fellow at the Japanese Ministry of International Trade & Industry. In 1996, he joined L'Oreal Group as a researcher in biomimetic and composite polymers. Quinn later led the integration of The Body Shop into L'Oreal. Most recently, he built the company's global sustainable growth strategy as director of sustainable

development. Quinn received his Ph.D. in physics from Trinity College Dublin.



**Roland Schatz** Founder and CEO of InnoVatio Publishing and Media Tenor International, is devoted since 30 years on implementing Social Change. In 2008 he launched together with Prince Ghazi of Jordan the C1 One World Dialogue foundation to improve Inter-Faith-Dialogue. The InnoVatio network of academics, entrepreneurs and media leaders initiated the Global Sustainability Index. Schatz teaches Perception Change and hosts masterclasses on 'Unlearning Intolerance'

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**Professor Francesco de Leo, Ph.D.**, is the Founder and Executive Chairman of Kaufman & Partners, a London based advisory company focused on telco, media, entertainment and corporate finance. Together with Jacek Marczyk, Kaufman & Partners is leading in the field of massive computational analysis of complexity across financial markets, advising world class financial institutions in the field of asset management and portfolio selection. Francesco is also acting as President of European Operations

for Prodea Systems, a Dallas based company leading in the field of the "Internet of Things". Prodea systems is controlled by the Ansari family, who is among the Trustee of the XPrize.org Foundation and sponsored the Ansari Prize for the first non-government organization to launch a reusable manned spaceship into space twice within the same week. Francesco is a member of the Advisory Board of Media Tenor, Rapperswil, Switzerland.

**Gregor Diehr** is a research assistant studying for a PhD at the Institute for Entrepreneurship of University of Liechtenstein. His doctoral study focuses on marketing of knowledge intensive firms.



**Professor Dr. Mark Esposito** is a member of the Teaching Faculty at the Harvard University Extension School, an Associate Professor of business and economics at Grenoble Graduate School of Business in France, and a Senior Associate at the University of Cambridge-CISL in the UK. At Harvard, Mark teaches courses on Systems Thinking and Complexity, Modern Dilemmas and Business, Government & Society and serves as Institutes Council Co-Leader, at the Microeconomics of Competitiveness program

(MOC) developed at the Institute of Strategy and Competitiveness, at Harvard Business School. He is Founder & Director of the Lab-Center for Competitiveness, a think tank affiliated with the MOC network of Prof. Michael Porter at Harvard Business School and Head of the Political Economy and Sustainable Competitiveness Initiative.



**Dr. Joachim Faber** is Chairman of the Supervisory Board of Deutsche Boerse AG. He was CEO of Allianz Global Investors and a member of the Management Board of Allianz SE, Munich until end of 2011. Joachim Faber joined Allianz in 1997 as CFO and member of the Management Board of Allianz-Versicherungs AG, Munich, after having spent fourteen years in various positions with Citicorp in Frankfurt and London. He graduated from the University of Bonn with a degree in law and received his PhD from the Postgraduate

School of Public Administration in Speyer, Germany, after completing his research at the Sorbonne University in Paris, France. Joachim Faber is a member of the Board of HSBC Holdings Plc in London, Chairman of the Shareholder Committee of Joh. Benckiser Sarl and member of the Board of Coty Inc. as well as a member of the Board of OSRAM Licht AG. He serves on the boards of German Cancer Aid in Bonn and the European School for Management and Technology in Berlin. He is the Chairman of the Investment Board of the Donor's Association for the Promotion of Sciences and Humanities in Germany. He was nominated to the Corporate Governance Codex Commission in September 2013.



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**Professor Dr. Stefan Güldenber** is Full Professor in International Management at the Institute for Entrepreneurship at the University of Liechtenstein and the Academic Director of the MBA International Program at the University of Liechtenstein. Visiting research fellowships and professorships led him among other activities to the John F. Kennedy School of Government, Harvard University. He is author of numerous scientific papers in the realms of International und Strategic Management, Leadership, Organizational Learning, Knowledge Management as well as Strategic Performance Management.



**Erika Karp** is Founder and CEO of Cornerstone Capital Inc. which is an investment bank with the mission of applying the principles and practices of sustainable finance to the mainstream of the capital markets. Having spent 25 years at major Wall Street firms, her expertise now includes advising both financial institutions and corporations

across industries on the optimal integration of environmental, social and governance excellence on their products and business models. Karp was former Managing Director of UBS Investment Bank and is a founding board member of the Sustainability Accounting Standards Board



**Jacek Marczyk Ph.D.** is founder of Ontonix, has over three decades of innovation, R&D and product development experience in various sectors such as aerospace, automotive, off-shore, computer hardware and software. He holds an MS in Aeronautical Engineering (Politecnico di Milano), MS in Aerospace Engineering (Politecnico di Torino) and a Ph.D in Civil Engineering (Universidad Politecnica de Catalunya). In the mid 1990s he has introduced to the industry the first commercial tool for large-scale stochastic

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**James X. Zhan, Ph.D.** Director of the Investment and Enterprise Division, United Nations Conference on Trade and Development. Former Research Fellow, Oxford University. Twenty-six years of international and national experience in investment, trade, technology, business facilitation and enterprise development, including directing extensive policy research, international consensus-building among 193 countries and technical assistance to more than 150 governments.

# CSR Index 2015

Trust is vital for society and for the global economy to function successfully and efficiently given the fast pace of change in the world today. The economic crisis that began in 2008 continues to challenge us today in part due to (a) the diminished sense of trust between businesses and their stakeholders, and (b) the lack of trust in the data on which businesses report performance and make decisions.

The performance of companies in the area of sustainable development is currently evaluated using the data provided on their website, in their Annual Report and in their Sustainability / CSR Report.

Rating agencies rework and interpret the elements provided using criteria and methodologies they have developed in-house to rank companies' results. It is widely recognized that the approach adopted by rating agencies presents a number of significant shortcomings.

The book aims to illustrate the role and functionalities of a robust Global Sustainability Index (GSI) that overcomes these limitations and allows companies to be ranked in a transparent and pertinent manner.

Our goal is to build a global sustainability index to demonstrably increase trust in corporate and business sustainability data and, importantly, allow companies to be compared with others in the same sector driving consciousness and investment. In this way companies working to develop win-win scenarios can be clearly identified (and recognized / rewarded) and those attempting greenwashing exposed.

To this end, the GSI will benefit business leaders' decisions as well as economic and political relations, and consequently the global economy—not to mention society as a whole.



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