Tax Policy: A Tool to Support Sustainable Growth

Pillar 4: Fiscal Matters

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The perception that taxation falls disproportionately on lower income constituents, while high-income and wealthy individuals, as well as the corporations and other businesses they own, benefit from a very light tax burden reinforces a lack of confidence in the legitimacy of tax systems. If corporations and other businesses treat taxes as a mere cost of doing business to be minimized in order to enhance the bottom line of their financial statements, they embrace strategies that enable them to reduce the amount they pay, a sum that may be inappropriately low when measured by the value of operating in a vibrant and stable global economy sustained by adequate government expenditures. Treating taxes as costs to shift onto others enables these companies to ignore the important role of taxation in the modern world. Taxation funds the tangible and intangible infrastructure that allows a government to provide essential goods and services to the polity. Access to healthy air and water, housing, food, health care, education and job training, childcare, dependable roads and transportation, safe and efficient waste disposal, electricity and other essential services, as well as fair and efficient legal and judicial systems, can only be provided by a government fueled by tax revenues. Yet a corporate goal of minimizing costs and maximizing profit above all else may operate to impair the effectiveness of governments in supplying the infrastructure necessary to support the basic needs of their residents.

The corporate social responsibility movement aims to correct the derogation of core values in the service of profit. Indeed, this movement calls into question the very meaning of the term “profit” when its measurement fails to account for detriments to the remainder of the world in the form of environmental degradation, substandard compensation to workers, gender inequality, lack of transparency in recordkeeping and reporting practices, and faulty procurement practices. True profit measurement must account for these costs to society if corporations are permitted to compete without regard to an obligation not to undermine the government’s role ability to provide an acceptable living standard for constituents at home and at work in the present and in the foreseeable future.
The Human-Centered Business Model (“HCBM” or “Model”) takes corporate social responsibility to a different level by supporting a system in which governments may account for consequences to constituents when businesses operate without reference to minimum set of guidelines. This “common set of corporate goals covering economic, social, and environmental sustainability based on ethical and integrity values”\(^1\) will be incorporated into the bylaws and other governing documents of the enterprises in order to create a coherent “business ecosystem.”

This paper provides an overview of the goals of the Fiscal Pillar (Pillar Four) of the HCBM project. It offers options for governments to design tax regimes that support efficiency and sustainable growth in their economies while providing incentives for enterprises to operate with attention to core principles as well as the considerable costs of doing business in a manner that diserves sustainable goals.

I.

Core Principles

The HCBM offers a template for business enterprises seeking to conduct business in a sustainable manner. It furnishes an opportunity to governments to design a legal regime in which for-profit activity is responsive and attentive to the often unintended, but deleterious effects of unrestrained profit maximization. The Model enunciates principles in three areas of equal importance: economic sustainability, social sustainability, and environmental sustainability, based on ethical and integrity values. It seeks primary impact on environment and work conditions and local communities and the environment. A secondary effect is expected for other enterprises in the supply chain. The Model is to be flexible and adaptable to developed countries and low- and middle-income countries with a special attention to the micro, small and medium enterprises (MSMEs).

One of the key functions of the HCBM is to provide instrumental support to the realization of the United Nations’ Sustainable Development Goals 2030 (“2030 SDGs”).\(^2\) The International Chamber of Commerce (“ICC”), noting the importance of taxation systems to collection of adequate revenue for public spending and their influence on all major systems affecting economic growth and development, pointed to five goals with which tax policy could have significant impact. These are:

- **Goal 1: Eradicate Extreme Poverty**
- **Goal 8: Promote Sustainable Economic Growth**
- **Goal 10: Reduce Income Inequality**


Goal 16: Promote Peaceful and Inclusive Societies for Sustainable Development

Goal 17: Strengthen and Revitalize the Global Partnership for Sustainable Development

The ICC noted the important role of a “collaboration between the private sector and intergovernmental organizations [in] achieving the SDGs and ensuring a more sustainable and prosperous future for all.”

The task of the Fiscal Pillar is to offer proposals for taxation initiatives that will provide ways in which governments can use taxation policy to achieve a set of human-centered performance goals. These goals, extrapolated primarily from the UN SDGs 2030, fall into three broad categories: economic, social, and environmental rights-based principles. A more detailed account of these principles for purposes of moving forward with the project of the Fiscal Pillar is set forth below:

**Economic/Ethical Principles**

1. Businesses Abide by Principles of Mutual Respect, Stewardship, Honesty, Trustfulness, Justice, Interdependence, Caring for the Poor, Protection of Human Dignity, and Legitimacy of Business and Profit that Serves the Interests of Society.

2. Businesses Avoid Fraud, Acknowledge Obligation for Timely Payments and Stable and Honest Prices.


5. Businesses Abide by Principles of Anti-money Laundering and Refrain From Tax Evasion.

**Social Principles**

Companies adopting socially sustainable practices guarantee the following:

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4 Id. at 1.

5 This category combines economic and ethical principles described in Human-Centered Business Model Guiding Principles Matrix 3 August 2017 Draft at 3 and 26-38.

6 The social principles are based on the notion that “[e]very [e]nterprise [must] respect…the human right of dignity…equality…privacy…freedom…work…and health.” Human-Centered Business Model Guiding Principles Matrix 3 August 2017 Draft at 4 (based on Universal Declaration of Human Rights, UN Global Compact, Treaty Establishing WHO, European Convention of Human Rights, European Union Charter of Fundamental Rights, GRI 412). In addition, “[e]nterprises [must ensure] that they are not complicit in human rights abuses [whether internal or external]. Id. (based on UN Guiding Principles Reporting Framework, UN Global Compact #2).
1. Adequate Wages (ensuring means to provide adequate housing, health, food, education)
2. Safe and Secure Working Environment (special protection for migrant workers, for gender- and child-based abuses, and for those working in precarious or otherwise hazardous employment)
3. Healthy Working Conditions
4. Elimination of discrimination in employment or occupation (including race-, sex-, skin color-, nationality-, religion, social-origin, or speech-based discrimination)
5. Equal Pay (applied on a non-discriminatory basis)
6. Equality of Opportunity for Workers (regardless of gender or disability)
7. Special Protections for Vulnerable Workers (minors, pregnant women, persons with disabilities)
8. Child Labor Prohibitions
9. Anti-slavery and Human Trafficking Practices
11. Paid Parental Leave

Environmental and Energy Consumption Principles

Adoption of the following practices or acknowledgement of the following duties define the environmentally sustainable enterprise:

2. Duty to Comply with National, Sub-national, Regional, and Local Environmental Laws and Regulations
3. Duty to Comply with International Environmental Conventions
4. Duty to Prevent and Repair Environmental Damage
5. Avoidance of Waste and Optimization of Resources
6. Duty to Recycle Inputs and to Reclaim Materials Used
7. Minimize Water Consumption

7 The environmental principles are based on the GRI 307-1, UN Global Compact #8, Rio Declaration of Human Environment, Principle 4, Convention on Wetlands of International Importance (Ramsar Convention, North American Agreement on Environmental Cooperation (NAAEC) under NAFTA, UN Framework on Climate Change, Paris Agreement on Climate Change,
8. Avoid Damage to Water Supply

9. Recycle and Re-use Water

10. Increase use of Renewable Energy

11. Reduce Energy Consumption in Producing Goods and Services

12. Reduce Discharged Waste

13. Avoid Introducing Waste into Water Bodies

14. Take substantial Efforts to reduce Waste Spills

15. Restrict transport of hazardous Waste

16. Reduce Direct and Indirect Greenhouse Gas Emissions

17. Protection of Biodiversity

18. Ensure Transparency of Environmental Information on Business Activities

19. Extend UN Global Compact Principles Through Value Chain to Minimize Supply Chain Impacts

20. Take into Account Environmental Needs and Expectations of Stakeholders

21. Encourage Development of Environmentally Friendly Technologies

The above economic/ethical, social, and environmental principles provide a menu of options to consider when constructing tax systems responsive to these goals.

II.

The Role of Tax Incentives

Any proposal for the use of tax law to create incentives/disincentives for corporate behavior sets up a debate. The primary question is whether the government or the marketplace is the best engine to spark economic growth. That is, is tax the best mechanism to influence private sector activity? Questions about the use of tax incentives to encourage private behavior raise concerns about whether the targeted actors will be able to fashion ways to avoid the tax without engaging in the targeted behavior. Analysts also note that:

Tax incentives risk compromising [fundamental principles of fairness, efficiency, and simplicity] to the extent that they complicate the tax system, create horizontal

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inequities, and distort production efficiency; and they may forgo revenue that could have been spent more productively or needs to be replaced in other and more damaging ways.\textsuperscript{9}

Consequently, the use of tax incentives/disincentives to induce businesses to adopt any of the principles detailed above must be viewed in the broader context of “tax policy design.”\textsuperscript{10} This normally means that a government must engage in an investigation of the costs and benefits accompanying the use of tax incentives.

Despite the balancing required and the available alternative of non-tax means to accomplish policy goals, most governments have determined in various contexts that the use of tax law to achieve certain societal goals is desirable. One of the most recent examples is the U.S. Congress’ enactment of Qualified Opportunity Zones in 2017 legislation. This legislation defers taxation of realized gains for as long as seven years if the sales proceeds are reinvested in businesses that invest in designated “low-income” communities.\textsuperscript{11} Examples of the use of tax law for similar incentives, along with others, by other countries are plentiful.\textsuperscript{12} While high-income countries are in a better position to do a proper cost-benefit analysis, low-income countries may lack the administrative capacity and other resources to properly assess the effects of incentives on attaining policy objectives. Consequently, more caution may be needed in designing for these countries a system of tax benefits linked to achieving prescribed economic, social, and environmental benchmarks.

III. Options

A. Statutory Tax Rate Applies Only to Enterprises that Commit to Prescribed Principles

A country could modify its tax laws to provide that the generally prevailing maximum statutory income tax rate applicable to corporations and other enterprises is available only to those that commit to adopting a specified number of principles. A simplified form of implementation could involve selection of one to three of each of the economic/ethical, social, and environmental principles enumerated in Pt I, above, to which each enterprise would be required to commit in order to be eligible for the generally prevailing tax rate. Thus, for example, if the prevailing

\textsuperscript{9} A Report to the G-20 Development Working Group by the IMF, OECD, UN and World Bank, Options for Low Income Countries’ Effective and Efficient Use of Tax Incentives for Investment (Oct 15, 2015) at 6.

\textsuperscript{10} Id.

\textsuperscript{11} See IRC §§1400Z-1 and 1400Z-2 (2017).

\textsuperscript{12} Taxation and Development—A Comparative Study (Karen B. Brown, editor, 2017).
corporate tax rate in a jurisdiction is a flat 21%, it would apply only those enterprises committing to the following six principles:¹³

**Economic/Ethical:**
- Transparency in Complying with Tax Laws
- Agreement not to Abuse or Manipulate Tax Laws

**Social:**
- Adequate Wages
- Healthy Working Conditions

**Environmental:**
- Avoid Damage to Water Supply from Operations
- Increase Use of Renewable Energy

Those enterprises that do not commit to the denoted principles pay income tax at the rate of 23%.

The number and category of principles selected would be connected to the policy goals of a particular country. The tax rate imposed on enterprises that do not commit to the prescribed principles would be based on an assessment by government analysts of the costs incurred when the corporation does not assume responsibility by incorporating the principles into their business model. An accurate analysis of the revenue lost by failure to commit to core principles would be more easily obtained if a smaller number is chosen by the country.

In addition to an assessment of the benefits or burdens of compliance or non-compliance with principles, a mechanism for reliable reporting of compliance, or certification, or independent rating based on performance indicators, would be essential to successful implementation.

**B. Reduce the Corporate Tax Rate for Demonstrated Compliance with Core Principles**

There is no revenue loss to the government under Option A from compliance with core principles, however, a way to sanction noncompliance is to reduce the tax rate when an enterprise documents commitment to a set of core principles. As described in option A, above,

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¹³ As described in Pt I, above, the number of important core principles is vast. Selection of a subset of the principles for implementation would be dictated by the priorities set by each country.
the number and type of principles would be determined by the participating country. A detailed
description of implementation of this option is found in Fiscal and Economic Incentives for
Companies Implementing an Alternative Business Approach. In that paper, Professor Andrés
provides a template for instituting tax rate reduction tied to compliance with selected guiding
principles.

This type of system could be ideally suited to implementation of tax incentives by low-income
countries. While there is disagreement regarding the effectiveness of the use of certain tax
incentives to achieve policy goals, there is widespread recognition that low-income countries
rely on these to attract foreign investment. Regarding low-income countries, this option would
require significant advances in developing the capacity of these countries to administer their
tax programs and to monitor implementation of tax incentives. This capacity building would be
achieved by international tax reforms by intergovernmental organizations as well as
commitments by multinational enterprises to work collaboratively with low-income countries
to enable them to launch incentives in ways that would enhance revenue-raising capacity.
Additional tax revenues will be crucial to finance the achievement of SDGs.

C. Voluntary Commitment by Enterprises

The model for this option is described in a report by the “B Team,” a group of leading
multinational enterprises that have voluntarily committed to a set of values known as
“responsible tax principles.” The B Team now consists of twelve Fortune 500 companies that
have acknowledged the importance of the 2030 SDGs in creating “a world that is socially fair,
environmentally secure, economically prosperous and more inclusive.” The B Team has
committed to implementing a set of seven principles that govern their relationships with their
governing boards in tax management activities, the development of cooperative dialogues with
tax authorities, and transparency with stakeholders, including investors, policy makers,
employees, civil society and the general public.

The principles most closely connected to the goals of the Fiscal Pillar are:

Principle 3 (Business Structure): We will only use business structures that are driven by
commercial considerations, are aligned with business activity and which have genuine
substance. We do not seek abusive tax results.

14 Professor Eva Andrés, Fiscal and Economic Incentives for Companies Developing an Alternative approach to
Doing Business: The Fiscal Pillar (IV) of the Human-Centered Business Model Project (University of Barcelona,
2017).
15 International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United
Nations (UN), and World Bank Group (WBG), Enhancing the Effectiveness of External Support in Building Tax
Capacity in Developing Countries (July 2016) 10-17.
16 Vodafone, Allianz, BHP, and Safaricom were among the founding members.
17 The B Team, A New Bar for Responsible Tax: The B Team Responsible Tax Principles.
Principle 5 (Seeking & Accepting Tax Incentives): Where we claim tax incentives offered by government authorities, we seek to ensure that they are transparent and consistent with statutory or regulatory frameworks.

Principle 6 (Supporting Effective Tax Systems): We engage constructively in national and international dialogue with governments, business groups and civil society to support the development of effective tax systems, legislation and administration.

Principle 7 (Transparency): We provide regular information to our stakeholders, including investors, policy makers, employees, civil society and the general public about our approach to tax and taxes paid.

The framework of responsible principles adopted by the B Team provide an opportunity to advance the work of the Fiscal Pillar. Working with the private sector, a selected number of the HCBM principles could be offered to private sector actors, like members of the B Team, for incorporation into a set of minimum operating practices that guarantee sustainability and advance the goals of the project.

The option of private sector commitment to enumerated principles may also reinforce other HCBM implementation strategies. As noted above, low-income countries, more frequently than high-income countries, may turn to tax incentives to attract more investment which will bring in more tax revenue. Suppose that one of the goals of the incentive is to assure that certain HCBM social principles, such as, paying a sustainable wage, providing safe, secure, and healthy working conditions to workers. The country carefully designs the incentive program to ensure that benefits will accrue only to enterprises that meet those goals. The extent to which a developing country is able to collect expected revenue from a tax holiday or other special regime, while assuring consistency with HCBM principles, is directly related to the country’s ability to reduce abuse or eliminate circumvention of requirements by resident and nonresident multinational enterprises. A voluntary commitment by private actors, like B Team members, to ensuring that tax incentives claimed are “transparent and consistent with statutory or regulatory frameworks” and “implemented as intended” and to working with governments to assess the revenue and economic impacts of tax relief would be invaluable to aid the developing country in achieving its goals.

While voluntary compliance does not have the force of law and does not offer the encouragement provided by tax benefits, it does have the benefit of transforming the conventional wisdom about profit-making when enterprises commit to incorporating key sustainability principles into every day practice and development of business strategy. This option may prove more effective if accountability accompanies voluntary commitment. This could include periodic progress reports by the enterprises offering pointing to actions that can be documented. A more robust version of accountability for voluntary agreement to support

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core principles would be routine reporting of compliance by an independent organization. This is discussed as a separate option below.

D. Endorse Ranking/Rating or Reporting Systems

Consumers and investors have begun to demand that for-profit enterprises conduct their business in accordance with a set of socially-responsible principles. Ranking entities, such as the Global Reporting Initiative, provide transparency, exposing in corporate practices that disserve human-centered goals. A very detailed report on ranking agencies is contained in Professor Reuven Avi-Yonah’s study, which is provided as Annex 1.\(^{19}\) The advantage of a ranking or reporting system is that it would allow results to be verified through dedicated data collection and verification without participation by the enterprises themselves. Whether or not the enterprises agreed to a set of core principles, company progress could be measured by reference to a range of databases containing pertinent information. Publication of the results would provide significant pressure for private sector compliance.

As Professor Avi-Yonah’s study indicates, there are significant issues concerning the set of data to be reported and the verification methodology to be employed. These offer promising avenues of further study.

E. Incorporate HCBM Principles into Documents Negotiated Pursuant to OECD Multilateral Instrument

Many observers have noted that a collaborative approach is critical to the effective implementation of the HCBM. Cooperation by tax administrations would greatly advance the project in material ways. In addition, collaboration of countries in providing tax incentives to achieve human-centered principles could be facilitated by harmonization of the different tax regimes of the world. The existence of separate substantive tax regimes invites abuse by providing the leverage multinational enterprises seize to manipulate differences and reduce their tax costs. This increases profits but also reduces revenue countries that would otherwise go to a country trying to meet basic needs of their constituents or to fund HCBM projects. The very existence of uncoordinated tax regimes invites enterprises to treat tax like other business costs, ignoring the power of taxation to make a difference in the lives of workers, society, and the environment.

Tax scholars and others have produced a large body of literature considering the possibilities for harmonization of substantive tax rules around the world which demonstrates that a new multilateral approach to taxation of international transactions is in order. A common corporate tax base or international tax rules uniting the substantive law of countries would make progress

\(^{19}\) Professor Reuven Avi-Yonah and Bonnie Liu, Human-Centered Business Model, Pillar 4 – Ranking Systems.
toward combating unfair manipulation of the separate laws of countries. One proposal is for rules providing for formulary apportionment of the jurisdiction to tax profits of multinationals. Apportionment would occur by reference to formulas allocating the right to tax profits to the location of assets, payroll, place of sales, or other criteria. There is concern that even these rules could be manipulated under some versions of the proposals. Another, a multilateral proposal calling for all countries to adopt worldwide taxation based on corporate residence (location of corporate headquarters if the place of incorporation is too easily manipulated) with a credit for taxes paid to foreign jurisdictions, is another promising approach, but it would require agreement by most countries to adopt this tax regime.20

While time will tell whether the countries of the world are ready for a collaborative and multilateral approach to taxation, ceding some amount of sovereignty for a more effective allocation of taxing rights, cooperation in setting human-centered business principles as a standard could be advanced by incorporation into multilateral treaties. Currently, 87 jurisdictions have agreed in principle to sign, or have signed, the OECD Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS. Eventually the Convention could develop a template for implementation of HCBM principles by signatories and for agreements between countries that adopt incentives.

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Annex 1

Human-Centered Business Model, Pillar 4—Ranking Systems

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Abstract
Nowadays, corporations are dominated by the single-minded pursuit of profit, and are often blamed for frequent irresponsible corporate behaviors. It is timely to transform the capital-centered business model into human-centered business model. To empower and encourage the corporations to take social responsibility, we must ensure the reliable ranking/rating of corporate social responsibility (CSR) performance of every business corporation. After comparative research on different CSR ranking/rating models, we propose to employ the global approach and the highly integrated big data and big analysis to further improve the reliability and comparability of CSR ranking/rating. Although there are various organizations engaging CSR ranking/rating driven by the market, the different methodologies and sources to date have limited the positive impacts of CSR ranking/rating outcomes on the corporate behaviors. We would like to push the boundary of the business ethics and corporate social responsibility and promote a win-win, inclusive and sustainable business ecology in the best interest of all corporate stakeholders, including but not confined to: shareholders, employees, consumers, and the global community as a whole.

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1. Theoretical foundations of corporate social responsibility (CSR) ranking/rating

1.1 Corporate angel v. corporate devil: Pros and cons of great invention of modern corporations

Unlike non-profit organizations or corporations, business corporations have been traditionally defined as to exist to create and maximize profits for their shareholders, by and through production of goods and provision of service. President Nicholas Murray Butler of Columbia made the pronouncement in 1911: "I weigh my words when I say that in my judgment the limited liability corporation is the greatest single discovery of modern times.... Even steam and
electricity are far less important than the limited liability corporation, and they would be reduced to comparative impotence without it.”

The corporate invention and the traditional capital-centered business model have greatly changed our life and the world. Almost all the daily goods and service we use are produced or rendered by corporations. We fly with the Boeing/Airbus airplanes, drive GM/Ford cars, surf on Google, chat on Facebook Messenger, watch Youtube videos on iPhones, purchase foods from stores like Whole Foods Market and Costco, jog in Adidas shoes, and use the financial services provided by banks and other financial institutions.

As pointed out by World Commission on Environment and Development in 1985, “Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future.” However, as indicated by GRI Sustainability Reporting Guidelines, the new opportunities to generate prosperity and quality of life arising though trade, knowledge-sharing and access to technology are not always available for an ever-increasing human population, and are accompanied by new risks to the stability of the environment. Statistics demonstrating positive improvements in the lives of many people around the world are counter-balanced by alarming information about the state of the environment and the continuing burden of poverty and hunger on millions of people. This contrast creates one of the most pressing dilemmas for the 21st century.

Despite the human betterment contributed by the corporate population, our daily life is also negatively affected or threatened by corporate diseases and wrongdoings, including but not confined to environmental pollution, climate change, infringement of privacy, violation of labor rights and other human rights, unsafe products and services, controversial safety of GMO food, development of financial crisis, and widespread opportunistic tax planning tactics for the purpose of base-erosion and profit-shifting (BEPS).

1.2 The mission of the corporations as corporate citizens and virtuous circle of CSR-friendly business ecology

The starting point and most fundamental context of this research project is why business corporations exist, what they want to accomplish and what is expected from the business corporations from the stakeholders and the society as a whole? In other words, do the business corporations solely exist to make money for their shareholders, or should they also take responsibility to advance the public welfare of all stakeholders, including non-shareholder

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21 Quoted in William M. Fletcher, Cyclopedia of the law of Corporations, §21 (1917).
constituencies, such as consumers, workers, environmental interests, the local community or even global community?

If the answer is yes, the traditional capital-centered business model must be replaced by human-centered business model. Compared with the traditional capital-centered business model, the human-centered business model are more inclusive of all stakeholders affected by the business activities of corporations. As shareholders are not only also human beings, but also the most important stakeholders of the business corporations, the human-centered business model does not mean to undermine or eliminate the free market economy at micro level, the private ownership and business model at macro level. Rather, the human-centered business model is the self revolution and live update of capital-centered business model in modern era. The human-centered business model is sustainable, as all the various stakeholders are supportive of the win-win human-centered business model.

If the answer is no, the traditional capital-centered business model should remain unchanged and stagnant. However, the traditional capital-centered business model is the root cause of all corporate diseases and corporate wrongdoings. If we do not change the traditional capital-centered business model, more serious financial crises and other corporate diseases could revisit us again and again in the near future. Even if the traditional capital-centered business model has not lost its justification and morality from the perspectives of traditional capitalism, it is difficult and even impossible for the traditional and single-minded capital-centered business model to be sustainable in modern global world.

We argue for the existence of bi-mission of the business corporations: making profits for the shareholders and advance welfare for the other stakeholders at the same time. Supposedly, corporations make profits for the shareholders in a socially responsible way. Both shareholder investment returns and stakeholder welfare depend on the sustainable development of the corporations.

We also argue that the best policy option is to set the social responsibility as an incentive mechanism and default rule for each and every corporation to pursue profit. On the one hand, business corporations may freely create maximum values for their shareholders. On the other hand, corporations are either motivated or required to respect, engage and protect non-shareholder constituents in order to make profits for their shareholders. In short, Corporate Social Responsibility (CSR) and profit-making are not incompatible. To the contrary, CSR is not a hurdle, but another driving force for honest corporations to maximize value for their shareholders.

In light of the financial crisis of 2008, Omid examined the return performance of U.S. companies that exhibit high ratings for ethics and corporate social responsibility (CSR). He finds that the return performance of socially responsible firms exhibits similar time-series dynamics to that of a broad market portfolio comprising of all NYSE, Nasdaq, and AMEX stocks. His results provide evidence in support of the Efficient Markets Hypothesis and suggest that the CSR rankings announcement provided by Corporate Responsibility Magazine is indicative of good news for
these firms. 24 The research of Nicolosi, Grassi and Stanghellini also confirmed that a stock selection based on the ranking of the firms according to the proposed CSR measure supports the hypothesis of a positive relationship between CSR and financial performance. 25

The reason is very simple. As result of the legal and ethical CSR standards and the voluntary freedoms enjoyed by the consumers, suppliers, banks, business partners and the community, socially responsible corporations will have more business opportunities than the irresponsible, selfish corporations. The good market governance should be able to induce and force the reasonable corporations to produce social good and maximize the social values. The better the socially responsible performance of a corporation, the better the reputation the corporation has. The better the reputation in the market and the society, the more profits it gets from the market and the society. The more the profits, the stronger the support from the shareholders. The stronger the support from the shareholders, the better the corporate socially responsible performance. This will generate a perpetually continuing positive feedback loop or virtuous circle/ cycle of CSR-friendly business ecology.

1.3 Did Milton Friedman really reject any form of corporate social responsibility?

Milton Friedman, the principal founder of the Chicago School of Economics and a public champion of laissez-faire capitalism, made a well-known argument to allow firms to single-mindedly pursue profit maximization: “a corporation’s responsibility is to make as much money for the stockholders as possible.” “If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is?” 26 In the past decades, his above-quoted arguments have been understood to oppose corporate social responsibility.

However, in our opinion, Friedman did not deny the legitimacy and existence of corporate social responsibility. Rather, he recognized the justification of corporate social responsibility led by an invisible hand, which is further established by the framework of law: “In [a free economy] there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.” “It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his own interest is, to quote Adam Smith again, 'led by an invisible hand to promote an end which was no part of his intention.'” 27

27 Ibid.
As the modern legal framework has become comprehensive and sophisticated enough to prohibit and restrict corporate irresponsible behaviors including polluting environments, exploiting the natural resources, breaching the human rights of employees and consumers, even the most selfish profit-maximizing firms have to behave themselves responsibly in the direction guided by law and business ethics. Therefore, we firmly believe that Milton Friedman did not intend to oppose any institutional arrangements that are capable of advancing both corporate profitability and public welfare by invisible hand and visible hand.

1.4 CSR ranking/rating as a fashion

However, both inducement and enforcement should not be firm-blind. To empower the invisible hand of market and the visible hand of government to identify the socially responsible and irresponsible corporations, CSR ranking/rating is necessary and essential.

Ranking has become a fashion of life in modern times. US News publishes the Best Colleges rankings annually based on academic excellence, covering National Universities, National Liberal Arts Colleges, Regional Universities and Regional Colleges. The Wall Street Journal/Times Higher Education College Rankings also constitute a comparative assessment of more than 1,000 US universities and colleges. Uniquely, it has at its heart the voices of 100,000 current American college students, collected through Times Higher Education’s annual US Student Survey. Although the two major ranking products both are designed to give students and their families the right information in need to choose their dream schools, the ranking results are different and even conflicting each other due to different rating methodologies. Ranking competition by its nature is good for ensuring the ranking quality, but the students and parents would be confused about contradictory ranking outcome: which ranking is more reliable?

Like the college ranking, CSR ranking, driven by the demand of the market participants and various stakeholders, is also gradually becoming a fashion of corporate life. Consumers may rely on the ranking result to buy products and services of top quality. Banks may rely on the ranking result to evaluate the creditability of their corporate debtors. Investors may rely on the ranking result to search the right target corporations to invest. Job seekers may rely on the ranking result to search responsible employers. Communities may rely on the ranking result to engage the firms in the neighborhood. Governments may rely on the ranking result to offer carrots or sticks. Environmental and other public interest groups may rely on the ranking result to fight against the most notorious corporations by litigation and criticism.

Before the growth of CSR ranking/rating, many corporations have already actively disclosed their CSR/ESG/sustainability reports for the purpose of improving public relationship. However, singing one’s own praises is not always welcome by the corporate stakeholders. However, due to the conflict of interest and lack of minimum reporting standards, the information in the CSR reports are either unreliable, incomparable or even misleading.

That is why some corporations practicing the core value of CSR and human-centered business model need independent third parties to rank/rate their CSR performance. Most corporations
are most interested in and concerned about their rankings for the purposes of good reputation and strong competitiveness. According to the research result of Lu, Abeyseckera and Cortese, CSR reporting quality positively influences corporate social reputation but CEO/chairman duality as a measure of board characteristics has a negative impact on corporate social reputation. 28

Compared with the corporations, the various stakeholders are more eager to know the actual CSR performance of the corporations that affect, influence or control the welfare of the stakeholders. Financial incentives could come from either the market or the government. The tax and fiscal incentives are essential tools to encourage corporations to behave as socially responsible and respected corporate citizens. To increase the transparency of CSR performance, and to enable the market and government to reward good firms or punish the bad firms, it is necessary for the governments or NGOs on CSR to develop reasonable, fair and actionable rating systems to identify which firm is exactly CSR-friendly.

Although various pro-CSO organizations have developed their own ranking/rating systems and methodologies to measure CSR performance, there is fundamental weakness of ranking/rating products and industry as a whole. There is a long way to go for the stakeholders to have a clear picture of the actual CSR performance by every major corporation affecting, influencing or even controlling their life with adequate precision. This research report will first summarize major existing CSR ranking/rating systems, compare the different characteristics of the systems, identify the weakness and shortcoming of the current ranking systems, and propose some suggestions on developing global and inclusive CSR ranking systems based on big data and big analysis. Of course, it is both ideal and feasible to amalgamate and conglomerate the successful and best elements in CSR ranking/rating practice.

2. General overview of CSR ranking/rating systems

There are a great number of CSR ranking/rating organizations around the world. As noted by Stephanie Mooij, many ESG rating agencies and other initiatives have emerged in response to the rising popularity of Responsible Investment. These ESG rating agencies, indices or rankings assess corporations based on their ESG performance. Besides many ESG ratings, there are about 500 rankings, 170 different ESG related indices, 100+ awards and at least 120 voluntary standards. 29

Generally speaking, CSR ranking/rating helps to promote the human-centered business model and socially responsible business activities. As observed by Sharkey and Bromley, research in

29Mooij, Stephanie, The ESG Rating and Ranking Industry; Vice or Virtue in the Adoption of Responsible Investment? (April 11, 2017). Available at SSRN: https://ssrn.com/abstract=2960869 or http://dx.doi.org/10.2139/ssrn.2960869
this area tends to emphasize the direct effects of ratings systems that occur when ratings give key audiences, such as consumers or investors, more information about a rated firm. Yet, ratings systems may also indirectly influence organizations when the collective presence of more rated peers alters the broader institutional and competitive milieu. Rated firms may be more responsive to ratings systems when surrounded by more rated peers, and ratings may generate diffuse or spillover effects even among firms that are unrated.\textsuperscript{30}

To enable the audience have a general picture of CSR ranking/rating, this part briefly the general overview of some representative CSR ranking/rating platforms.

2. 1 CSRHub

As the world’s largest and most comprehensive databases of CSR and sustainability-related information, CSRHub provides access to CSR and sustainability ratings and information on 17,487+ companies from 135 industries in 134 countries. Managers, researchers and activists use CSRHub to benchmark company performance, learn how stakeholders evaluate company CSR practices and seek ways to change the world. CSRHub’s website reports that its mission is to foster access to sustainability and corporate social responsibility (CSR) information and to be an engine of transparency that encourages more consistent and actionable disclosure from all types of organizations.\textsuperscript{31}

CSRHub rates 12 indicators of employee, environment, community and governance performance and flags many special issues. It offers subscribers immediate access to 133 million detailed data points from its 549-plus data sources. Its data comes from nine socially responsible investing research firms, well-known indexes, publications, “best of” or “worst of” lists, NGOs, crowd sources and government agencies. By aggregating and normalizing the information from these sources, CSRHub has created a broad, consistent rating system and a searchable database that links each rating point back to its source.\textsuperscript{32}

CSRHub is a B Corporation, an Organizational Stakeholder (OS) with the Global Reporting Initiative (GRI), a silver partner with Carbon Disclosure Project (CDP), a founding member of The Alliance of Trustworthy Business Experts (ATBE) and supports both the Global Initiative for Sustainability Ratings (GISR) and the International Integrated Reporting Committee (IIRC).\textsuperscript{33}

The official website of CSRHub cites many positive reviews from its users. Some customers say that, “In building comparable company metrics, I’ve found CSRHub’s method of integrating hundreds of CSR data sources into a single data portal to be invaluable, and is made even more

\textsuperscript{31}https://www.csrhub.com/content/about-csrhub/
\textsuperscript{32}Ibid.
\textsuperscript{33}Ibid.
powerful when paired with data from other services.""CSRHub has proven to be invaluable in developing novel coursework and in cutting-edge research that has led to discoveries about the relationship between sustainability reporting and corporate reputations and conduct.""34

2.2 MSCI ESG

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.35

MSCI ESG Ratings provides institutional investors with a more robust environmental, social and governance (ESG) integration tool to help them mitigate risk and enhance long term value creation. MSCI ESG Ratings is designed to help investors to understand ESG risks and opportunities and integrate these factors into their portfolio construction and management process. Their global team of 140 experienced research analysts assesses thousands of data points across 36 ESG Key Issues, focusing on the intersection between a company’s core business and the industry issues that can create significant risks and opportunities for the company. Companies are rated on a AAA-CCC scale relative to the standards and performance of their industry peers.36

MSCI has over 40 years of experience through its legacy companies collecting, cleaning, standardizing and modeling ESG data from thousands of sources to create a precision tool for a clear signal of ESG performance. It rates 6,400 companies (11,800 total issuers, including subsidiaries and more than 400,000 equity and fixed income securities globally).

The MSCI ESG Ratings model seeks to answer four key questions about companies: i) What are the most significant ESG risks and opportunities facing a company and its industry? ii) How exposed is the company to those key risks and/or opportunities? iii) How well is the company managing key risks and opportunities? iv) What is the overall picture for the company and how does it compare to its global industry peers?

2.3 GRI

GRI is an independent international organization that has pioneered sustainability reporting since 1997. GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance

34https://esg.csrhub.com/request-csrhub-demo-now?_ga=2.260844557.106724979.1503713560-676474693.1501342069
and social well-being. This enables real action to create social, environmental and economic benefits for everyone. The vision of GRI is: “A thriving global community that lifts humanity and enhances the resources on which all life depends”. Its mission is: “To empower decisions that create social, environmental and economic benefits for everyone”. 37

All GRI Reporting Framework documents are developed using a process that seeks consensus through dialogue between stakeholders from business, the investor community, labor, civil society, accounting, academia, and others. All Reporting Framework documents are subject to testing and continuous improvement. The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on an organization’s economic, environmental, and social performance. It is designed for use by organizations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organizations – from small enterprises to those with extensive and geographically dispersed operations. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization’s sustainability performance.

The Sustainability Reporting Guidelines (the Guidelines) consist of Principles for defining report content and ensuring the quality of reported information. It also includes Standard Disclosures made up of performance indicators and other disclosure items, as well as guidance on specific technical topics in reporting. The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and rooted in the public interest.

More than two thirds of respondents indicate that their organizations employ the GRI framework in the preparation of their reports, 38 due to its credibility, flexibility and adaptability. GRI pioneered sustainability reporting two decades ago, and the GRI Standards are still considered global best practice today. 39

Under the EU Directive on Non-Financial Disclosure, which aims at improving corporate transparency and integrate sustainability reporting at the heart of business strategies, thousands of companies in the EU are expected to start disclosing their 2017 non-financial information in 2018. GRI thinks the GRI Standards are the key tool to meet the obligations under the EU Directive.

2.4 Global 100

The Global 100 is an annual ranking of corporate sustainability performance released each January at the World Economic Forum in Davos and published in leading media including Forbes.com. Ranking the Global 100 most sustainable corporations in the world is conducted by Corporate Knights, a specialized media and investment research firm. Corporate Knights is a

37 https://www.globalreporting.org
39 https://www.globalreporting.org/information/about-gri/Pages/default.aspx
Toronto-based, employee-owned B Corp that operates in three segments: i) Corporate Knights Magazine. It’s World’s largest circulating magazine focused on sustainability and responsible business. It reaches 380,000 of the world’s most influential business and political decision-makers. It calls itself a magazine for clean Capitalism. ii) CKResearch.CK Research offers a range investment product sustainability ratings and tools. iii) Council for Clean Capitalism. It is CEO-supported group catalyzing smart and efficient public policy.

Key features of the Global 100 include: i) Approach. driven by data, not judgment. ii) Transparent: clear approach for getting from the project’s starting universe (n =~ 4,000 companies) to the 2017 Global 100. iii) Scoring: Companies are only scored on ‘relevant’ KPIs for their respective industry.iv) Data gaps: the project incentivizes more disclosure, not less disclosure. v) Scope. the Global 100 sticks to indicators that can be objectively measured—it does not purport to gauge companies’ exposure to qualitative sustainability risks. The approach and methodology are reviewed annually through stakeholder consultations and expert input. 41

Ranking is based on publicly-disclosed data (e.g., financial filings, sustainability reports). All required data points are pre-populated. Methodology is based on 14 key performance indicators (KPIs) covering resource, employee and financial management, and supplier performance.

Regarding size, global mid, large, and mega-cap companies are eligible for participating in Global 100. Regarding industry and geography, all industries and geographies are automatically considered for entering.

2.5 Social Accountability International —SA8000

Social Accountability International (SAI) is a non-governmental, multi-stakeholder organization whose mission is to advance the human rights of workers around the world. It partners to advance the human rights of workers and to eliminate sweatshops by promoting ethical working conditions, labor rights, corporate social responsibility and social dialogue.

The intent of SA8000 is to provide an auditable, voluntary standard, based on the UN Declaration of Human Rights, ILO and other international human rights and labour norms and national labour laws, to empower and protect all personnel within an organisation’s control and influence who provide products or services for that organisation, including personnel employed by the organisation itself and by its suppliers, sub-contractors, sub-suppliers and home workers. It is intended that an organisation shall comply with this Standard through an appropriate and effective Management System.

40 http://www.corporateknights.com/reports/global-100/
41 The 2017 Global 100: Overview of Methodology, P.3. http://www.global100.org
SAI established one of the world’s preeminent social standards the SA8000® standard for decent work, a tool for implementing international labor standards. Many more workplaces are involved in programs using SA8000 and SAI programs as guides for improvement.

Figure 4.1: Distribution of Social and Economic Requirements
The normative elements of SA8000 are based on national law, international human rights norms and the conventions of the ILO. SA8000 is verifiable through an evidenced-based process, its requirements apply universally, regardless of a company’s size, geographic location, or industry sector. SA8000 integrates nine core elements: child labour, forced labour, health and safety, freedom of association and right to collective bargaining, discrimination, discipline, working hours, compensation and management systems. SA8000 is a process-type standard not a product-type standard. There is no seal or label on goods produced by companies certified against the standard.

2.6 ISO 26000 - Social responsibility

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). It is the world’s largest developer of voluntary International Standards, used by businesses and other organizations; its members are national standards bodies and its standards and name-recognition are global in reach. ISO Standards relevant to corporate social responsibility include ISO 14000 Family – Environmental management, ISO 9000 Family – Quality management, ISO 45001-Health and safety management systems (draft), ISO 20400 – Sustainable procurement (draft),ISO 37001–Anti-bribery management systems.

ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way. This means acting in an ethical and transparent way that contributes to the health and welfare of society. The rationale behind ISO 26000 is that business and organizations do not operate in a vacuum. Their relationship to the society and environment in which they operate is a critical factor in their ability to continue to operate effectively. It is also increasingly being used as a measure of their overall performance.

ISO 26000:2010 provides guidance rather than requirements, so it cannot be certified to unlike some other well-known ISO standards. Instead, it helps clarify what social responsibility is, helps businesses and organizations translate principles into effective actions and shares best practices relating to social responsibility, globally. It is aimed at all types of organizations regardless of their activity, size or location.

ISO 26000 was launched in 2010 following five years of negotiations between many different stakeholders across the world. This standard was prepared by ISO/TMB Working Group on Social Responsibility, using a multi-stakeholder approach involving experts from more than 90 countries and 40 international or broadly-based regional organizations involved in different aspects of social responsibility. ISO 26000 incorporates the real-life experiences of its many contributors, and at the same time builds on international norms and agreements related to Social Responsibility.

2.7 Summary
Almost all the CSR ranking agencies have the common core value of CSR, and all wish to meet the CSR challenges by providing reliable ranking/rating reports to the stakeholders of major
corporations. While some CSR ranking agencies, such as MSCI, observe the CSR performance of the corporations from the perspective of shareholders and investors especially institutional investors, some ranking agencies, such as CSRHub, observe and evaluate the CSR performance from the point of view of pro-non-shareholder constituencies. In my opinion, human-centered business model demands inclusive middle-way approach so as to accommodate the core interests of various stakeholders including shareholders and other stakeholders.

CSR ranking/rating agencies covers different corporations. For instance, CSRHub provides access to CSR and sustainability ratings and information on 17,487+ companies, while the Global 100 only covers 100 big name corporate elites, thus leaving most of the corporate populations disappeared off the ranking list. This means that bad corporations could successfully avoid the negative disclosure of the CSR ranking. Although the impact of the Global 100 on the global business community might be very limited, the most sustainable corporations identified by the Global 100 might serve as the role models of CSR performance.

2.7 Standard Ethics

Standard Ethics (SE) is an independent sustainability rating agency which aims to promote sustainability and governance standard principles emanating from the European Union, the OECD and the United Nations.

An original approach to sustainable finance is proposed by Standard Ethics, mentioned in the Final Report 2018 by the High-Level Expert Group on Sustainable Finance activated by the European Commission.\(^{42}\)

Standard Ethics adopts the operating model of credit rating agencies and therefore its business model is not based on an Investor-Pay Model (as normally adopted by companies dealing with ESG issues) but on the Applicant-Pay Model: SE issues solicited ratings to companies that voluntarily request them. This means that SE does not provide advice, especially to investors. The Applicant-Pay Model, which is typical in traditional finance sectors but absent in the ESG sector, has led SE to develop an approach that is radically different to others, which seems more coherent and linear: both in the methodology of analysis, in its classification, in its development of indices and in its commercial approach.

Having such a different approach is interesting to examine and this is beginning to be the subject of some studies.\(^{43}\)

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Massimo Pollifroni. “Stakeholder Engagement Policies: searching for the positive performances by a Theoretical Model applied to the Italian Public Sector” Economia Aziendale Online. International Business Review. ISSN 1826-4719. Pavia, April, 2008
3. Key CSR indicators covered by CSR ranking agencies

3.1 CSRHub

CSRHub tests the level of CSR performed in specific firm from the perspectives of community, employee, environment and governance.

3.1.1 Community
This category covers the company’s commitment and effectiveness within the local, national and global community in which it does business. It reflects a company’s citizenship, charitable giving, and volunteerism. This category covers the company’s human rights record and treatment of its supply chain, the environmental and social impacts of the company’s products and services, and the development of sustainable products, processes and technologies.  

This Category includes the following three subcategories.

i) The Community Development and Philanthropy subcategory covers the relationship between a company and the communities within which it is embedded. It reflects a company’s community citizenship through charitable giving, donations of goods, and volunteerism of staff time. It also includes protecting public health (e.g., avoidance of industrial accidents) and managing the social impacts of its operations on local communities. The subcategory also includes a company’s land use and building design impact on the local economy and ecosystem.

ii) The Product subcategory covers the responsibility of a company for the development, design, and management of its products and services and their impacts on customers and society at large. This subcategory reflects a company’s capacity to reduce environmental costs, create new market opportunities through new sustainable technologies or processes, and produce or market goods and services that enhance the health and quality of life for consumers. This subcategory covers the integrity of a company’s products and sales practices, including their labeling and marketing, social impacts and end-of-life disposition. It also relates to product safety and quality and the company’s response to problems with safety and quality.

iii) The Human Rights and Supply Chain subcategory measures a company’s commitment to respecting fundamental human rights conventions, its ability to maintain its license to operate by supporting freedom of association and excluding child, forced or compulsory labor. It covers a company’s transparency in overseas sourcing disclosure and monitoring and a company’s relationship with and respect for the human rights of indigenous peoples near its proposed or current operations.

3.1.2 Employees

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This category includes disclosure of policies, programs, and performance in diversity, labor relations and labor rights, compensation, benefits, and employee training, health and safety. The evaluation focuses on the quality of policies and programs, compliance with national laws and regulations, and proactive management initiatives. The category includes evaluation of inclusive diversity policies, fair treatment of all employees, robust diversity (EEO-1) programs and training, disclosure of workforce diversity data, strong labor codes (addressing the core ILO standards), comprehensive benefits, demonstrated training and development opportunities, employee health and safety policies, basic and industry-specific safety training, demonstrated safety management systems, and a positive safety performance record. This category includes the following three subcategories.

i) The Compensation and Benefits subcategory covers a company’s capacity to increase its workforce loyalty and productivity through rewarding, fair, and equal compensation and financial benefits. It includes benefits that engage employees and improve worker development. This subcategory also focuses on long-term employment growth and stability by promotion practices, lay-off practices, and relations with retired employees.

ii) The Diversity and Labor Rights subcategory covers workplace policies and practices covering fair and non-discriminatory treatment of employees, and its diversity policies. It covers a company’s labor-management relations and participation by employees, National Labor Relations Board (NLRB) violations or patterns of anti-union practice, conformance to internationally recognized worker rights, as defined in the basic conventions of the International Labor Organization (ILO). Fundamental labor rights include freedom of association and protection of the right to organize; right to bargain collectively; a minimum age for the employment of children; a prohibition against forced labor; lack of employment and occupational discrimination; and equal compensation. This subcategory measures a company’s ability to maintain diversity, provide equal opportunities regardless of gender, age, ethnicity, religion or sexual orientation, and promote work-life balance.

iii) The Training, Safety and Health subcategory measures a company’s effectiveness in providing a healthy and safe workplace. This subcategory includes accident and safety performance, as well as job training, safety standards and training, and employee-management safety teams. It includes programs to support the health, well-being and productivity of all employees. This subcategory includes workplace policies and programs that boost employee morale, workplace productivity, company policies and practices to engage employees, and worker development.

3.1.3 Environment
This category covers a company’s interactions with the environment at large, including use of natural resources, and a company’s impact on the Earth’s ecosystems. It evaluates corporate environmental performance, compliance with environmental regulations, mitigation of environmental footprint, leadership in addressing climate change through appropriate policies and strategies, energy-efficient operations, and the development of renewable energy and other alternative environmental technologies, disclosure of sources of environmental risk and
liability and actions to minimize exposure to future risk, implementation of natural resource conservation and efficiency programs, pollution prevention programs, demonstration of a strategy toward sustainable development, integration of environmental sustainability and responsiveness with management and the board, and programs to measure and engage stakeholders for environmental improvement. This category further includes the following three subcategories.

i) The Energy and Climate Change subcategory measures a company’s effectiveness in addressing climate change through appropriate policies and strategies, energy-efficient operations, and the development of renewable energy and other alternative environmental technologies. This subcategory includes energy use, emissions to air of CO2 and other Greenhouse Gas Emissions (GHG).

ii) The Environmental Policy and Reporting subcategory includes a company’s policies and intention to reduce the environmental impact of a company and its value stream to levels that are healthy for the company and for the environment, now and in the future. The data includes the company’s environmental reporting performance, adherence to environmental reporting standards such as the Global Reporting Initiative, and compliance with investor, regulatory and stakeholders’ requests for transparency. Compliance data consists of breaches of regulatory limits and accidental releases.

iii) The Resource Management subcategory covers how efficiently resources are used in manufacturing and delivering products and services, including those of a company’s suppliers. It includes a company’s capacity to reduce the use of materials, energy or water, and to find more efficient solutions by improving its supply chain management. This subcategory includes environmental performance relative to production size and is monitored by the production-related Eco Intensity Ratios (EIRs) for water and energy defined as resource consumption per produced or released unit. Resource materials include raw materials and packaging materials for production and related processes and packaging of products. Resource Management data also include waste and recycling performance. Recycling data is related to the proportion of waste recycled of the total waste. Data includes how the company manages operations to benefit the local airshed and watershed, and how the company impacts land use and local ecological stability. The water resource data includes consumption of drinking water, industrial water and steam.

3.1.4 Governance

The Governance category covers disclosure of policies and procedures, board independence and diversity, executive compensation, attention to stakeholder concerns, and evaluation of a company’s culture of ethical leadership and compliance. Corporate governance refers to leadership structure and the values that determine corporate direction, ethics and performance. This category rates factors such as: are corporate policies and practices aligned with sustainability goals; is the management of the corporation transparent to stakeholders; are employees appropriately engaged in the management of the company; are sustainability
principles integrated from the top down into the day-to-day operations of the company. Governance focuses on how management is committed to sustainability and corporate responsibility at all levels. This category includes the following three subcategories.

i) The Board subcategory covers a company’s effectiveness in following best practices in corporate governance principles related to board membership, independent decision making through experienced, diverse and independent board members, effectiveness toward following best practices related to board activities and functions, and board committee structure and composition. It includes how the company provides competitive and proportionate management compensation and its ability to incent executives and board members to achieve both financial and extra-financial targets.

ii) The Leadership Ethics subcategory measures how a company manages its relationships with its various stakeholders, including investors, customers, communities, and regulators. This subcategory measures a company’s effectiveness in treating its shareholders equitably. Leadership ethics includes the company’s culture of ethical decision making. It measures a company’s commitment and effectiveness toward the vision of integrating social and environmental aspects into the overall core strategy and whether sustainability principles are integrated from the top down into the day-to-day operations of the company.

iii) Transparency and Reporting subcategory rates the following factors: (i) Are corporate policies and practices aligned with sustainability goals? (ii) Is the management of the corporation transparent to stakeholders? (iii) Are employees appropriately engaged in the management of the company; (iv) Do sustainability reports comply with standards such as the Global Reporting Initiative, AccountAbility (AA1000) and other standards? (v) Are these reports made publicly available? This subcategory includes whether the company provides a list of its major stakeholders and how it engages with them. It also covers whether the company is a signatory of Global Compact and other leading global entities. It evaluates the assurance (3rd party audit) of the accuracy, completeness, and reliability of its Sustainability or CSR reports.

3.2 Key CSR issues covered by MSCI ESG

The MSCI ESG Research LLC examines 3 Pillars across 10 Themes consisting of 37 ESG Key Issues. The environmental pillar includes themes on climate change, natural resources, pollution & waste, and environmental opportunities. The social pillar includes themes on human capital, product liability, stakeholder opposition, and social opportunities. Lastly, the governance pillar includes themes in corporate governance and corporate behavior. The 37 ESG Key Issues further specifies the indicators taken into account in assessing corporate performance amongst industry peers.\(^4^5\)

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\(^4^5\)Executive Summary MSCI ESG Ratings Methodology, p.4.
3.3 Key CSR performance indicators covered by the GRI Guidelines

Global reporting initiative (GRI)—sustainability reporting guidelines, version 3.1 requires the reporting corporations to disclose the corporate strategy and profile, including strategy and analysis, organizational profile, report parameters, governance, commitments and engagement, management approach and performance indicators.

The section on sustainability Performance Indicators is organized by economic, environmental, and social categories. Social indicators are further categorized by labor, human rights, society, and product responsibility. Each category includes a disclosure on management approach (‘management approach’) and a corresponding set of core and additional performance indicators.

Core indicators are those indicators identified in the GRI Guidelines to be of interest to most stakeholders and assumed to be material unless deemed otherwise on the basis of the GRI Reporting Principles. Additional indicators are those indicators identified in the GRI Guidelines...
that represent emerging practice or address topics that may be material to some organizations but not generally for a majority.

(1) Economic indicators
EC1-EC4 addresses economic performance. EC 1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments; EC2 Financial implications and other risks and opportunities for the organization’s activities due to climate change; EC3 Coverage of the organization’s defined benefit plan obligations; EC4 Significant financial assistance received from government.

EC5-EC7 addresses market presence: EC5 Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation; (b) EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation; EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.

EC8-EC9 addresses indirect economic impacts: EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement; EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts.

(2) Environmental indicators
EN1-EN2 addresses materials: EN1 Materials used by weight or volume; and EN2 Percentage of materials used that are recycled input materials.

EN3-EN7 addresses energy: EN3 Direct energy consumption by primary energy source; EN4 Indirect energy consumption by primary source; EN5 Energy saved due to conservation and efficiency improvements; (d) EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives; and EN7 Initiatives to reduce indirect energy consumption and reductions achieved.

EN8-EN10 addresses water: EN8 Total water withdrawal by source; N9 Water sources significantly affected by withdrawal of water; and EN10 Percentage and total volume of water recycled and reused.

EN11-EN15 addresses biodiversity: EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas; EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas; EN13 Habitats protected or restored; EN14 Strategies, current actions, and future plans for managing impacts on biodiversity; and EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.
EN16-EN25 addresses emissions, effluents, and waste: EN16 Total direct and indirect greenhouse gas emissions by weight; EN17 Other relevant indirect greenhouse gas emissions by weight; EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved; EN19 Emissions of ozone-depleting substances by weight; EN20 NO, SO, and other significant air emissions by type and weight; EN21 Total water discharge by quality and destination; EN22 Total weight of waste by type and disposal method; EN23 Total number and volume of significant spills; EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally; and EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization’s discharges of water and runoff.

EN26-EN27 addresses products and services: EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation; and EN27 Percentage of products sold and their packaging materials that are reclaimed by category.

EN 28 addresses compliance, including monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.

EN29 addresses transport, including significant environmental impacts of transporting products and other goods and materials used for the organization’s operations, and transporting members of the workforce.

EN30 addresses overall, including total environmental protection expenditures and investments by type.

(3) Labor practices and decent work
LA1-3 addresses employment: LA1 Total workforce by employment type, employment contract, and region, broken down by gender; LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region; and LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.

LA4-5 covers labor/management relations: LA4 Percentage of employees covered by collective bargaining agreements; and LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.

LA6-9 covers occupational health and safety: LA6 Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs; LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region and by gender; LA8 Education, training, counseling, prevention, and risk-control programs in place to assist
workforce members, their families, or community members regarding serious diseases; and LA9 Health and safety topics covered in formal agreements with trade unions.

LA10-12 covers training and education: LA10 Average hours of training per year per employee by gender, and by employee category; LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings; and LA12 Percentage of employees receiving regular performance and career development reviews, by gender.

LA13 covers diversity and equal opportunity, including composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.

LA14-15 covers equal remuneration for women and men: LA 14 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation and LA15 Return to work and retention rates after parental leave, by gender.

(4) Human rights
HR1-3 addresses investment and procurement practices: HR1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening; HR2 Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken; and HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.

HR 4 addresses non-discrimination, including total number of incidents of discrimination and corrective actions taken.

HR 5 addresses freedom of association and collective bargaining, including operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.

HR 6 addresses child labor, including operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.

HR 7 addresses forced and compulsory labor, including operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.
HR 8 addresses security practices, including the percentage of security personnel trained in the organization’s policies or procedures concerning aspects of human rights that are relevant to operations.

HR 9 addresses indigenous rights, including total number of incidents of violations involving rights of indigenous people and actions taken.

HR 10 addresses assessment, including percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.

HR 11 addresses remediation, including number of grievances related to human rights led, addressed and resolved through formal grievance mechanisms.

(5) Society
SO1, SO9–10 addresses local community: SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programs; SO9 Operations with significant potential or actual negative impacts on local communities; and SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.

SO2–4 addresses corruption: SO2 Percentage and total number of business units analyzed for risks related to corruption; SO3 Percentage of employees trained in organization’s anti-corruption policies and procedures; SO4 Actions taken in response to incidents of corruption.

SO5–6 addresses public policy: SO5 Public policy positions and participation in public policy development and lobbying; and SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

SO7 addresses anti-competitive behavior, including the total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.

SO8 addresses compliance, including monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.

(6) Product responsibility
PR1–2 addresses customer health and safety: PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures; and PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.

PR3–5 addresses product and service labeling: PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements; PR4 Total number of incidents of non-compliance with regulations
and voluntary codes concerning product and service information and labeling, by type of outcomes; and PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

PR6–7 addresses marketing communications: PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship; and PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.

PR8 addresses customer privacy, including total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

PR9 addresses compliance, including monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.

3.4 The Global 100

The new rating methodology, deployed by Global 100 for the 2017 Global 100 Ranking, covers resource, financial and employment KPIs (key performance indicators). Companies will only be scored on the KPIs that are deemed “priority KPIs” for their respective GICS industry + the four universal KPIs.

Resource management KPIs include: i) Energy Intensity: Revenue (converted to USD using PPP exchange rate) / (Energy use–renewable energy use); ii) Carbon Intensity: Revenue (converted to USD using PPP exchange rate) / GHG emissions: scope 1 & 2; iii) Water Intensity: Revenue (converted to USD using PPP exchange rate) / Water use; iv) Waste Intensity: Revenue (converted to USD using PPP exchange rate) / Non-recycled or reused waste generated.

Financial management KPIs include: i) Innovation Capacity: R&D expenses / revenue–three year trailing (2013 – 2015); ii) Percentage Tax Paid: Cash tax amount paid / EBITDA – five year trailing 2011 - 2015; iii) CEO-Average Employee Pay: CEO compensation / average employee compensation; iv) Pension Fund Status: Pension Fund Status:75% (total DB and DC employer contributions/ FTE employees percentile-ranked against peers) + 1/4(fair value of DB plan assets/FTE employees percentile-ranked - (1-(fair value of DB plan assets/liability percentile-ranked))

Employee management KPIs include: i) Safety Performance: Fatalities and lost time incidents; ii) Employee Turnover: Number of departures / average total employees; iii) Leadership Diversity: Female representation on board of directors, executive management team and existence of a female CEO, and no longer compared against same industry peers only, but against all companies in the universe; iv) Clean Capitalism Pay Link: Mechanisms that link senior executive pay to clean capitalism targets. All companies, irrespective of GICS Industry will still be assessed
on all four universal KPIs - leadership diversity, clean capitalism pay link, pension fund status and percentage tax paid. The four universal KPIs are all equally weighted.

Additional KPIs include supplier score and clean air productivity score. Supplier score focus on the company’s largest supplier as determined by Bloomberg. Largest supplier will be scored using the same new methodology for the 2017 Global 100 minus the “Supplier score" KPI. Clean Air Productivity score consists of Revenue (converted to USD using PPP exchange rate) / VOC emissions (25%), Revenue (converted to USD using PPP exchange rate) / Nox emissions (25%) ,Revenue (converted to USD using PPP exchange rate) /Sox emissions (25%) , Revenue (converted to USD using PPP exchange rate) / Particulate matter emissions (25%) .

Therefore, there are 14 key performance indicators (KPIs). Priority indicators per GICS (Global Industry Classification Standard) industry are all equally weighted, including energy productivity, GHG Productivity, water productivity, waste productivity, safety performance, employee turnover, CEO average employee pay, innovation capacity, supplier score, clean air productivity.

3.5 SA 8000


There are nine social accountability requirements in the SA8000: 2014 Standard, including child labour, forced or compulsory labour, health and safety, freedom of association & right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management system.

Based on the nine social accountability requirements, the SA8000 Performance Indicator Annex lists performance expectations that organizations claiming conformance with the normative requirements of SA8000 must meet, as a minimum. The Indicators are as the followings: i)child labour; ii) forced or compulsory labour; iii) health and safety, including documents/licenses/permits/certificates, health and safety committee, ergonomics, training, emergency preparedness, fire extinguishers, alarm system, personal protective equipment (PPE), general working environment, water, air, noise, and temperature, electrical safety, machine guards and safety, chemical and hazardous waste handling and storage, medical care, restroom facilities, kitchen, cafeteria, and canteens, dormitories and Childcare Facilities; iv) freedom of association & right to collective bargaining; v) discrimination; vi)disciplinary practices; vii) working hours; viii) remuneration, including the following subcategories, such as living wage estimate, wage payment, living wage step-approach, payroll documentation; ix) management system, including policies, procedures and records, social performance team (SPT), identification and assessment of risks, monitoring, internal involvement and
communication, complaint management and resolution, external verification and stakeholder engagement, corrective and preventive actions, training and capacity building and management of suppliers and contractors.

Each performance indicator constitutes a secondary reference, providing a quantitative or qualitative measure of performance directly related to one, or more, of the requirements of the SA8000 Standard itself. The primary purposes for establishing the SA8000 performance indicator annex are: i) To improve transparency of interpretive expectations amongst users of the SA8000 standard and other interested parties; ii) To improve consistency of interpretive expectations and, thereby, enhance interested parties' understanding and appreciation of the value of SA8000 conformance; and iii) To establish a clear "SA8000 benchmark" against which other social performance criteria (utilized by purchasing companies and other standard-setting organisations) may be cross-referenced.

The current listing of performance indicators is derived from: i) A review of the commonly understood performance interpretations that have been applied to the implementation and evaluation of the SA8000 requirements since the standard's inception in 1997; ii) Performance indicators gathered from specialized research conducted by SAI; and iii) A comparative review of contemporary performance indicators commonly used by other organizations.

The SA8000 Performance Indicator Annex describes the minimum social accountability performance expectations for SA8000 certified organizations. Any party can use these indicators to evaluate the extent to which an organization's activities/controls and social performance conform to each of the SA8000 Standard requirements. However, the Annex is not a standalone or normative document; it requires simultaneous reference to the related requirement(s) of the SA8000 Standard. Depending on the nature and situation of each individual organization, there may be credible and justifiable reasons for certain indicators to be considered insignificant or non-applicable. There may also be viable performance interpretations that are not currently listed in the Annex.

With the exception of adequately justified circumstances, an organization’s failure to demonstrate conformance with any applicable performance indicator shall be considered a non-conformance against a specific related requirement of SA8000 (not only against a performance indicator(s) in the Annex).

For Example: The Health and Safety section of the Annex includes the following performance indicator: “Exits are: unlocked during working hours, or are of the push-bar type and unlocked from the inside.” Thus, if an auditor finds a locked exit door during working hours, that finding would be cited against SA8000: 2014 Health and Safety Criteria 3.1, which requires the organisation to "provide a safe and healthy workplace environment" and "take effective steps to prevent potential health and safety incidents." The auditor may also refer to the specific expectation/clause of the Annex, but this shall always be secondary to direct reference to the related SA8000 requirement/clause.
The Annex is not an exhaustive list of performance indicators and does not change the Standard’s requirements; rather, the Annex details specific performance indicators that demonstrable correct implementation of the SA8000 criteria. It may be updated more frequently than the Standard as SAI and other organizations research and develop new indicators. Therefore, the length and scope of the sections will likely change over time. Currently, the Health and Safety section is the most comprehensive because indicators in this area are the most advanced to date.

The indicators in this Annex may be fully or partially required by local or national law. As is the case with SA8000, if the Standard addresses the same issue as local or national laws, standards or other requirements related to the organization, the provision that is most favorable to workers applies.

3.6 ISO 26000

ISO 26000 provides guidance on the underlying principles of social responsibility, recognizing social responsibility and engaging stakeholders, the core subjects and issues pertaining to social responsibility and on ways to integrate socially responsible behavior into the organization. ISO 26000 emphasizes the importance of results and improvements in performance on social responsibility. The core content of ISO 26000 consists of seven principles, seven core subjects and their related issues, and stakeholder engagement principles.
Clause 4 of ISO 26000 introduces and explains seven principles of social responsibility: i) Accountability, which means the state of being answerable for decisions and activities to the organization’s governing bodies, legal authorities and, more broadly, its stakeholders affected by its actions; ii) Transparency, which requires openness about decisions and activities that affect society, the economy and the environment, and willingness to communicate these in a clear, accurate, timely, honest and complete manner; iii) Ethical behavior, in accordance with accepted principles of right or good conduct in the context of a particular situation; iv) Respect for stakeholder interests; v) Respect for the rule of law; vi) Respect for international norms of behavior; vii) Respect for human rights.

Clause 6 of ISO 26000 explains seven core subjects and associated issues relating to social responsibility. Core subjects and issues Addressed in sub-clause. For each core subject, information has been provided on its scope, its relationship to social responsibility, related principles and considerations, and related actions and expectations. i) Organizational governance; ii) Human rights, including due diligence; human rights risk situations; avoidance of complicity; resolving grievances; discrimination and vulnerable groups; civil and political rights; economic social and cultural rights; fundamental principles and rights at work; iii) Labour
practices, including employment and employment relationships; conditions of work and social protection; social dialogue; health and safety at work; human development and training in the workplace; iv) The environment, including prevention of pollution; sustainable resource use; climate change mitigation and adaptation; protection of the environment biodiversity and restoration of natural habitats; v) Fair operating practices, including Anti-corruption; responsible political involvement; fair competition; promoting social responsibility in the value chain; respect for property rights; vi) Consumer issues, including fair marketing factual and unbiased information and fair contractual practices; protecting consumers' health and safety; sustainable consumption; consumer service support and complaint and dispute resolution; consumer data protection and privacy; access to essential services; education and awareness; vii) Community involvement and development, including community involvement; education and culture; employment creation and skills development; technology development and access; wealth and income creation; health; social investment.

3.7 Standard Ethics (SE)

SE’s approach was made known through a publication of Italian’s financial newspaper Il Sole 24 Ore in 2002[^46]. The Agency is constantly updating its methodology and discloses any news on its findings. It has recently published what it believes to be the “three laws of sustainability”[^47]. It believes that CSR and Sustainability are different branches of the ESG tree. The first, deriving from the Stakeholder Theory, puts the company and its stakeholders at the centre. It is a sort of “micro-economic” point of view that includes also ethical choices. According to SE, this approach is Corporate Social Responsibility and Socially Responsible Investment (for investors). Two subcategories – one for companies, one for investors – that, for Standard Ethics, are designed to offer freedom of choice in the selection of objectives and ethical solutions. This can certainly lead to interesting, responsible business models, models that reflect the ideas of the future of those who create and subscribe to them, models that are the brain child of the economic entities that define them. This, however, means that there is no uniformity.

Sustainability, on the other hand, is a shared concept, a systemic concept. For Standard Ethics it has to do with those environmental, social and economic phenomena that go beyond the borders of nations, the ideas of a company, the expectations of individuals. Society is quickly realising that solutions need to come from global strategies. It is not for a

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[^47]: www.standardethics.eu
bank, an investment fund, a company or a conglomerate – however important they may be – to decide what should be considered sustainable for the planet and for future generations. And yet, this cardinal point does not seem to have been understood by all.

Talking about sustainability means talking about strategies such as the 2015 United Nations Climate Change Conference (COP 21), or the UN Global Compact for Migration, or the OECD Guidelines for Multinationals or the sustainable strategies drawn up by the EU and the Council of Europe. They are devised by international democratic institutions set up by countries, institutions that are open to accountable decision-making processes, that are ready to manage conflicts and disagreements on solutions and timing, institutions that render the participation of experts unavoidable. In a nutshell, these strategies are processes in which science and sharing prevail over individual positions. That signifies, for Standard Ethics, that being sustainable means that both banks and businesses voluntarily align their activities with a collective, planetary effort, with well-defined strategies and objectives. Only by measuring said conformity with comparable, transparent and third-party methodologies will it be possible to ascertain the degree of sustainability of an economic entity and the efforts it is making for tomorrow's generations.

In short, the Standard Ethics Rating is a rating that intends to deliver an opinion on the level of compliance by companies and sovereign nations in the field of sustainability and corporate social responsibility (CSR) on the basis of documents and guidelines published by:

- the United Nations (UN);
- the Organisation for Economic Cooperation and Development (OECD);
- the European Union (EU).

3.7.1 From CSR performance indicators to a Sustainability algorithm

This interpretation is summarised by SE through a matrix. A matrix that is used to explain why the agency only measures ESG actions that fall under the heading of sustainability. In this case we only talk about those voluntary actions that are required by large international organisations, which do not include ethical or political aspects required by stakeholders since they lack a systemic and global perspective.

Therefore, having a standard approach, SE does not use "Key CSR performance indicators" but measures the distance of companies from international indications using a single algorithm.
To get data, Standard Ethics uses an analyst-driven rating process, so the work to be carried out does not require applicants to fill out forms and questionnaires or draft other documentation in addition to existing information. Standard Ethics analysts will gather the required data through a Guidelines governing 219 analysis points:

1. MARKET AND COMPETITORS (13)
2. MARKET AND DOMINANT POSITIONS (10)
3. CONTRACTS, FINANCINGS AND PUBLIC AIDS (7)
4. MARKET DISTORTIONS, FAVOURITISM & CORRUPTION (7)
5. OWNERSHIP, SHARE CAPITAL AND SHAREHOLDERS (8)
6. INTERNAL VOLUNTARY RULES ON OWNERSHIP EXERTION (8)
7. INDEPENDENCE AND CONFLICT OF INTERESTS (12)
8. MINORITY MEMBERS PROTECTIONS AND DIRECTORS APPOINTMENT (7)
9. COMMUNICATION, INFORMATION AND TRANSPARENCY (5)
10. BOARD OF DIRECTORS AND EXECUTIVE GROUP TRANSPARENCY (9)
11. INTERNAL VOLUNTARY RULES REGARDING MANAGEMENT (10)
12. INDEPENDENCE AND CONFLICT OF INTERESTS (13)
13. DISCLOSURE AND TRANSPARENCY (22)
14. PARTICIPATION AND VOTE IN GENERAL MEETINGS (5)
15. EMPLOYMENT AND HUMAN RESOURCES SELECTION (11)
16. HEALTH, SAFETY AT WORK AND SOCIAL DIALOGUE (16)
17. ADAPTATION TO CHANGES (6)
18. ENVIRONMENT (17)
19. CONSUMERS AND QUALITY (9)
20. SCIENCE AND TECHNOLOGY (4)
21. LOCAL COMMUNITIES (3)
22. BUSINESS PARTNERS (9)
23. HUMAN RIGHTS (6)
24. EUROPEAN STRATEGIES (2)

3.8 Summary

Similar to the significance of accurate blood test by the hospital for identifying the disease of the patients, CSR ranking indicators should be designed as accurate and complete as possible. Otherwise, good corporations will not be rewarded, and bad corporations will not be penalized by the market or the law.

CSRHub tests the level of CSR performance from the four perspectives of community, employee, environment and governance. Each category is further divided into four subcategories.
The MSCI ESG examines 3 Pillars (environmental, social and governance) across 10 Themes consisting of 37 ESG Key Issues. The sustainability Performance Indicators of GRI Guidelines are organized by economic, environmental, and social categories. Among others, social indicators are further categorized by labor, human rights, society, and product responsibility.

Global 100 for the 2017 Global 100 Ranking covers 14 key performance indicators (KPIs), including 3 resource indicators, 5 financial indicators and 4 employment indicators, plus additional supplier score and clean air productivity score.

There are nine social accountability requirements in the SA8000: 2014 Standard, including child labour, forced or compulsory labour, health and safety, freedom of association & right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management system.

ISO 26000 introduces seven principles of social responsibility and seven core subjects and associated issues relating to social responsibility, including organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues and community involvement and development.

SE’s approach is radically different as it serves the issuer requesting the rating. Therefore, its credibility is based on the solidity of the analysis model and its standardisation: an algorithm and not CSR indicators. For this reason, it does not examine even ethical choices. On the contrary, it could evaluate them negatively if they were

4. Methodologies of CRS ranking/rating systems

4.1 CSRHub

In addition to offering a chart to show how CSRHub generates a score,48 CSRHub claims that it follows a well-defined set of rules that determine when they can rate any part of a company’s performance and also when they can offer an overall rating.49

In order to rate a subcategory, CSRHub requires: i) A minimum number of sources (it ranges depending upon a variety of circumstances between two and six sources) for each subcategory. So, to give a company a rating for “Energy & Climate Change,” CSRHub might need data from both CDP and Climate Counts; ii) A minimum amount of data. CSRHub measures this in terms of data weight. Some sources tend to predict and follow the consensus of other sources—others diverge often from consensus. The software gives the sources that are good predictors a higher weight than those who are not. Some sources invest a lot of resources in the work and/or generate original data. The software gives these sources additional weight compared to those who merely summarize work done by others. Some sources offer one rating

49https://www.csrhub.com/content/csrhub-rating-rules/
that covers a wide range of sustainability issues while others have many detailed ratings elements. Those with more elements get more weight; iii) If there is not good agreement between the data sources or if the resulting score is extreme (e.g., 0 or 100), they may exclude the result. 50

To score a category, CSRHub must have a rating for at least one subcategory. CSRHub may suppress a category rating if they do not have enough weight in the subcategories underneath it to produce a reliable score.

To offer an overall rating, CSRHub must have: i) Ratings for all four categories; ii) Ratings for at least five subcategories (so at least one category must have two subcategories in it); iii) Enough total weight; iv) Enough total sources; v) If the weight is light or the number of sources is low, a reasonable score (they trim outliers that do not have enough support to justify).

The above process is mechanical. The software handles the details of both converting the data received into a 0 to 100 score, mapping it into the subcategories and special issues, normalizing the data across all of the companies they follow, and then processing the data to produce ratings.

4.2 MSCI ESG

The ESG Ratings model is industry relative and uses a weighted average approach. The range of scores for each industry is established annually by taking a rolling three-year average of the top and bottom scores among the MSCI ACWI Index constituents; the values are set at the 97.5th and 2.5th percentile. Using these ranges, the Weighted Average Key Issue Score is converted to an Industry Adjusted Score from 0-10, where zero is worst and 10 is best. The Industry Adjusted Score corresponds to a rating between best (AAA) and worst (CCC). These assessments of company performance are not absolute but are explicitly intended to be relative to the standards and performance of a company’s industry peers.

Figure 4.1: ESG Rating Framework and Process Overview

50 Ibid.
4.3 GRI

Organizations that have used the Guidelines and/or other elements of the GRI Reporting Framework as the basis for their report are requested to notify the GRI upon its release. While notifying GRI, organizations can choose any or all of the following options: i) Simply notify the GRI of the report and provide hard and/or soft copy; ii) Register their report in GRI’s online database of reports; ii) Request GRI check their self-declared Application Level.

Sustainability reporting is a living process and tool, and does not begin or end with a printed or online publication. Reporting should fit into a broader process for setting organizational strategy, implementing action plans, and assessing outcomes. Reporting enables a robust assessment of the organization’s performance, and can support continuous improvement in performance over time. It also serves as a tool for engaging with stakeholders and securing useful input to organizational processes.
GRI sustainability reporting guidelines set the following ten principles for ensuring report quality:

i) Materiality. The information in a report should cover topics and indicators that reflect the organization’s significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.

ii) Stakeholder inclusiveness. The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

iii) Sustainability context. The report should present the organization’s performance in the wider context of sustainability.

iv) Completeness. Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organization’s performance in the reporting period.

v) Balance. The report should reflect positive and negative aspects of the organization’s performance to enable a reasoned assessment of overall performance.

vi) Comparability. Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization’s performance over time, and could support analysis relative to other organizations.

vii) Accuracy. The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization’s performance.

viii) Timeliness. Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

ix) Clarity. Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

x) Reliability. Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

As part of GRI content index, the disclosure(s) on management approach is intended to address the organization’s approach to managing the sustainability topics associated with risks and opportunities. The organization can structure its disclosure(s) on management approach to cover the full range of aspects under a given category or group its responses differently. However, all of the aspects associated with each category should be addressed regardless of the format or grouping. Disclosures on management approach include: goals and performance
policy, organizational responsibility, training and awareness, monitoring and follow up, additional contextual information. Among other issues, training and awareness, and Monitoring and follow up are not applicable to Economic (EC) indicators.

GRI standards also requires that a sustainability report should include in its boundary all entities that generate significant sustainability impacts (actual and potential) and/or all entities over which the reporting organization exercises control or significant influence with regard to financial and operating policies and practices.

4.4 Global 100

Philosophical perspective of the Global 100 include relevance, transparency, objectivity, public data, comparability, engagement and stakeholders. i) Relevance. The ranking is meant to be representative of business sustainability in the current socio-economic context. ii) Transparency. The precise methodology of the ranking and the results of the process are fully disclosed. iii) Objectivity. Eligible companies will only be assessed using quantitative data and performance indicators. iv) Public data. Only data-points that are part of the public domain are used. v) Comparability. Companies are compared against their industry group peers based on performance indicators for which the underlying data are reasonably well disclosed by their industry group globally. vi) Engagement. Companies eligible for the ranking will be informed prior to the ranking, so as to have an opportunity to ensure the necessary data is made available publicly. vii) Stakeholders. Stakeholder feedback is actively solicited throughout the project. A Panel of Experts, consisting of several sustainability practitioners, review and comment on all aspects of the methodology.

The rating methodology of Global 100 could be reflected in the following ranking process and screening criteria.

Figure 3: Overview of Global 100 Ranking Process
Figure 3.4: Screening Criteria

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>Starting Universe</strong></td>
<td>- Mid, large, and mega-cap public companies</td>
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<tr>
<td><strong>Screening</strong></td>
<td>- All companies that had a market capitalization in excess of $US 2 billion</td>
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<tr>
<td></td>
<td>- Companies screened for:</td>
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<td></td>
<td>- Sustainability disclosure practices</td>
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<td></td>
<td>- Financial health</td>
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<tr>
<td></td>
<td>- Product categories</td>
</tr>
<tr>
<td></td>
<td>- Financial Sanctions*</td>
</tr>
<tr>
<td><strong>Selection</strong></td>
<td>- Screening criteria outlined on Slide 6</td>
</tr>
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<td></td>
<td>- Companies that pass all four screens constitute the 2017 Global 100 Shortlist</td>
</tr>
<tr>
<td></td>
<td>- Any company that was on the 2016 Global 100 is automatically included in the 2017 Global 100 shortlist if it is not in the bottom quartile of the Financial Sanctions screen in both 2015 and 2016</td>
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<tr>
<td><strong>The Global 100</strong></td>
<td>- Selection criteria outlined on Slide 8-11</td>
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<td></td>
<td>- Companies only scored on the 'priority KPIs' for their respective GICS industry (see Slides 13-15)</td>
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<td></td>
<td>- The 2017 Global 100 is populated</td>
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<td></td>
<td>- Consists of the top performing companies within each industry group</td>
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<td></td>
<td>- Each GICS sector is assigned a fixed number of slots in the final Global 100 list, (based on each sector's contribution to the total market capitalization of the Global 100's financial benchmark, the MSCI ACWI).</td>
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<tr>
<th>Description</th>
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<tr>
<td><strong>Sustainability Disclosure Practices</strong></td>
<td>- Companies that did not disclose at least 75% of the 'priority KPIs' in their respective industry group are eliminated</td>
</tr>
<tr>
<td><strong>Financial Health</strong></td>
<td>- A 'priority KPI' is any of the 12 KPIs that is disclosed by at least 10% of all companies in a given GICS industry (see slides 9-11)</td>
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<td></td>
<td>- KPIs 6, 8, 11 and 12 (from slide 8) are not considered since the required data points are part of mandatory disclosure and are therefore applicable to all</td>
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<tr>
<td><strong>Product Categories</strong></td>
<td>- The F-Score (the Piotroski F-score) is a measure of the financial strength of a company.</td>
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<td></td>
<td>- The F-score is the sum of the scores for each of nine tests. See Appendix I for details.</td>
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<tr>
<td><strong>Sanctions</strong></td>
<td>- Companies with a GICS code that relates to tobacco products or armaments are eliminated</td>
</tr>
<tr>
<td></td>
<td>- The sub-industries are i) &quot;Aerospace &amp; Defence&quot; and ii) &quot;Tobacco&quot;.</td>
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<td></td>
<td>- In the case of Aerospace &amp; Defense, the company will only be eliminated if it derives a majority of its revenue from its Defense business group</td>
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<td>- Companies that are bottom quartile performers in the CK Sanctions* screen are eliminated</td>
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<td>- The screen measures the amount of money that companies paid out in qualifying fines, penalties or settlements over the October 1, 2015 to September 30, 2016 period</td>
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<td>- Sanctions include but are not limited to human rights, labour, environmental, anti-trust and community-related violations</td>
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<td>- See Appendix II for details.</td>
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</tbody>
</table>
4.5 SA8000

Although the standards of SA 8000 is voluntary-based, it is enforced by market-based engagement and audit mechanism.

First, the standard is transparent. SAI provides free of charge online access to the standard and additional resources that help companies understand the requirements of the SA8000 standard. SAI also offers a wide range of capacity building support and technical assistance including SA8000 auditor training seminars and professional development workshops. The SA8000 standard is applicable to any company worldwide, across all industrial sectors with the exception of maritime. 51

SAI encourage the corporations to join the initiatives by taking the following steps: i) Compare self with standard, identify gaps, conduct training of the standard; ii) Auditors from these certification bodies visit facilities and assess corporate practice on a wide range of criteria. A key part is to evaluate the performance of the company’s management systems to ensure the ongoing implementation of acceptable practices laid out in the SA8000 standard; iii) In case of compliance with the SA8000 requirements, a certificate is issued which the certified facilities are required to make public. SAAS also publishes this information on its website on a public list that is updated on a quarterly basis; iv) Certified companies must display their certificate, but individual products cannot be labelled as the certification represents a procedures and performance-type process and not a product certification.

As far as audit is concerned, third-party audit is required. The frequency of audits includes half yearly audits and surprise audits. Semi-annual surveillance audits are conducted; at least one in the first three years must be unannounced (SAAS Global Procedure 200, 2.19 and 2.21). Companies must re-certify every 3 years.

SA8000 uses a pass/fail system, whereby once an organization has implemented any necessary improvements to meet the requirements in the Standard, it can earn a certificate attesting to its compliance with SA8000. If non-conformity with SA8000 standards are found, corrective actions need to be taken in due time after non compliances have been identified. Continued improvement is expected in certified facilities.

The organization shall comply with local, national and all other applicable laws, prevailing industry standards, other requirements to which the organization subscribes and this Standard. When such laws, standards or other requirements to which the organization subscribes and this Standard address the same issue, the provision most favorable to workers shall apply.

The organization shall also respect the principles of the following international instruments: ILO Convention 1 (Hours of Work – Industry) and Recommendation 116 (Reduction of Hours of

51Social Accountability International-SA8000. For detailed information about this and other standards check out: Standardsmap.org
Work; ILO Conventions 29 (Forced Labour) and 105 (Abolition of Forced Labour); ILO Convention 87 (Freedom of Association); ILO Convention 98 (Right to Organize and Collective Bargaining); ILO Conventions 100 (Equal Remuneration) and 111 (Discrimination – Employment and Occupation); ILO Convention 102 (Social Security - Minimum Standards); ILO Convention 131 (Minimum Wage Fixing) ILO Convention 135 (Workers’ Representatives); ILO Convention 138 and Recommendation 146 (Minimum Age); ILO Convention 155 and Recommendation 164 (Occupational Safety and Health); Rights ILO Convention 159 (Vocational Rehabilitation and Employment - Disabled Persons); ILO Convention 169 (Indigenous and Tribal Peoples); ILO Convention 177 (Home Work); ILO Convention 181 (Private Employment Agencies); ILO Convention 182 (Worst Forms of Child Labour); ILO Convention 183 (Maternity Protection); ILO Code of Practice on HIV/AIDS and the World of Work; Universal Declaration of Human Rights; The International Covenant on Economic, Social and Cultural Rights; The International Covenant on Civil and Political Rights; The United Nations Convention on the Rights of the Child; The United Nations Convention on the Elimination of All Forms of Discrimination Against Women; The United Nations Convention on the Elimination of All Forms of Racial Discrimination and UN Guiding Principles on Business and Human.

4.6 ISO 26000

ISO does not offer ranking/rating service based on the voluntary ISO 26000. However, ISO 26000 standard offers guidelines on integrating social responsibility through organizations.

To use ISO 26000, corporations need to set the direction from the top and to build SR into governance and procedures, to determine relevance and significance and to establish priorities, to assess the responsibilities in corporate sphere of influence, to perform due diligence, and to report and communicate with stakeholders.

ISO 26000 was developed by a working group of about 500 experts. At the publication of this standard the working group was disbanded. However, the leadership of the working group was retained to provide support and expertise for users. This is now called the Post Publication Organization (PPO), for ISO 26000. The ISO 26000 PPO has produced the following document(s) to support the implementation of ISO 26000: i) Communication Protocol – Describes appropriate wordings organizations can use to communicate about their use of ISO 26000; ii) ISO 26000 basic training materials in the form of a PowerPoint and training protocol guidance; iii) Those that link ISO 26000 with the OECD guidelines for multinational enterprises and the UN Agenda 2030 (Sustainable Development Goals); Those for the Systematic Review of ISO 26000, due to begin 15 January 2017.

As there is no certification of ISO 26000, the corporate users of ISO 26000 may accurately claim their use one of the following formats, “We have used/applied ISO 26000 as a guide/framework/basis to integrate/implement social responsibility into our values and
practices.” or “We recognize ISO 26000 as a reference document that provides guidance for integration/implementation of social responsibility / socially responsible behavior.”  

4.7

Standard Ethics has one point of reference on which to measure the distance of ESG policies, and has created a single algorithm based on 5 major standards/areas.

Standard Ethics Algorithm ©

\[
\frac{(F_{CEU} + S_{EU-OECD} + M_{EU-OECD} \cdot f(S_a) \cdot f(L_{EU-OECD}) + C_{UN-OECD-EU} \cdot f(F_c) \cdot f(L_{EU-OECD}))}{10} + k
\]

Where:

\(F_{CEU}\) = Fair competition. Main topics: Fair competition, including analysis of dominant positions, market distortions, cartels. Issues that can affect the other variables (Sources: the EU and conduct regulators in OECD countries).

\(S_{EU-OECD}\) = Shareholders’ agreements. Main topics: Shareholders’ agreements, rights of minority shareholders, access to information (Sources: the EU and conduct regulators in OECD countries).

\(M_{EU-OECD}\) = Market weight. Main topics: Shareholding structure, weight and type of major shareholders, potential conflicts in relation to the other variables (Sources: conduct regulators in OECD countries).

\(L_{EU-OECD}\) = Independent directorship. Main topics: Structure and quality of apical and control organs, Risk and Control Management system, Risk Analysis. It is one of the standards most likely to mitigate risks of the other issues and can increase the "k" variable. (Sources: the EU and the OECD).

\(C_{UN-OECD-EU}\) = Governance and Corporate Social Responsibility. Main topics: Overall assessment of both the policies and the corporate governance by weighting the various elements also in relation to the balance of the other variables (Sources: the EU, OECD and UN).

\(k\) = Sustainability at Risk (SaR). Statistical projection.

The final rating is divided into 9 rating classes and the digest summarizes their meaning.

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\(^{52}\)ISO 26000 Basic training material, Published by ISO 26000 Post Publication Organisation (PPO).
4.8 Summary

While CSRHub and MSCI ESG provides the rating outcome, Global 100 offers the ranking product. One of the differences is that both responsible and responsible corporations are covered by CSRHub and MSCI ESG, while only good or best corporations are recognized by Global 100. Of course, the methodologies used by CSRHub and MSCI ESG have both commonalities or similarities despite major differences in technical details.

GRI neither ranks nor rates the CSR performance of the reporting corporations. Although the application of GRI sustainability reporting guidelines does not lead to typical CSR ranking or rating products, GRI sustainability reporting guidelines is not a puppet of corporate public relation strategy. In addition to serving as the basis for the self-report of the corporations, GRI checks the self-declared application level of the corporations registering their report in GRI’s online database of reports, therefore provides a platform supportive of comparable analysis between different corporate peers by different users. Therefore, there is little discretion on the part of GRI to distort the reliability of sustainability report. However, the cons of the GRI sustainability reporting guidelines is that the users of the reports have to double check the authenticity and reliability by themselves, and it is not feasible for every user to verify the sustainability reports in a less costly way.

Like GRI sustainability reporting guidelines, neither SA 8000 nor ISO 26000 is a CSR performance ranking/rating system. But unlike GRI sustainability reporting guidelines, both SA 8000 and ISO 26000 are CSR standards for corporations to follow in their daily management, not sustainability or CSR reporting guidelines for the purpose of regularizing CSR reports. The standards of SA 8000 is enforced by market-based engagement and audit mechanism. ISO 26000 standard only offers guidelines on integrating social responsibility.
through organizations. Unlike the certifiable SA8000, ISO 26000 standard is not certifiable, as it does not contain requirements. Of course, it appeals to those corporations seeking to improve their operating processes and impacts through socially responsible behavior.

5. Data sources of CSR ranking/rating systems

5.1 CSRHub

CSRHub’s system aggregates and normalizes 131 million data points from over 535 data sources, including both public and private sources. Currently, CSRHub uses 539 data sources to calculate its ratings. The data sources include 100 Low Carbon Pioneers, 2020 Women on Boards, AA1000 Assurance Standard 2008, AccountAbility, Alliance for Board Diversity 2012, Asian Corporate Governance Association (ACGA), and B Corporation GIIRS Ratings, etc.  

To remove most of the sources of bias and inconsistency, CSRHub takes the following approach:  

i) Map to a central schema. They divide CSR performance into twelve subcategories, which roll up into four categories. They have established an open-ended number of special issue topics to hold CSR issues that do not fit their twelve subcategory schema. They map each element of data they receive from a data source into one or more subcategory and/or one or more Special Issue. For instance, if a data source reports that a company is involved in Burma, they include this information in their Leadership Ethics subcategory and in their “Involved in Burma” special issue. They have mapped over 131 million data elements.

ii) Convert to a numeric scale. They take each data item from their sources and convert it into a rating on a 0 to 100 scale (100 = positive rating).

iii) Normalize. They compare the scores from different data sources for the same company. By analyzing the variations between our sources, they can determine their biases. They then adjust all of the scores from a source to remove bias and create a more consistent rating.

iv) Aggregate. They weight each source based on our estimate of its credibility and value. They then combine all of the available data on a company and generate base ratings at the subcategory level. They then aggregate these ratings further to the category level.

v) Trim. They drop ratings when they do not have enough information. They currently do not rate about 100,000 companies for whom they do not have enough information.

vi) Research each rated company and attempt to determine which industries it participates in. They gather contact information, a description of the company’s business, and the location

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53 https://www.csrhub.com/our_data_sources/
54 https://www.csrhub.com/content/csrhub-ratings-methodology/
of its Web site. This information allows us to create industry and country averages. They have set up our own industry category system, based loosely on the NAICS code structure.

5.2 MSCI ESG

The analyst team assesses 1000+ data points on ESG policies, programs, and performance across 36 ESG Key Issues, focusing on the intersection between a company’s core business and the industry issues that can create significant risks and opportunities for the company. The data analyzed include those concerning 65,000 individual directors as well as 13 years of shareholder meeting results.

The types of sources include 100+ specialized datasets from governments, NGOs, and models, as well as company disclosures including Form 10-K, sustainability reports, and proxy reports. A large number of current and historical media sources monitored daily from global and local news sources, governments, and NGOs. According to MSCI, to assess companies’ exposure to and management of ESG risks and opportunities, they collect data from the following sources: i) Macro data at segment or geographic level from academic, government, NGO datasets (e.g. Transparency International, US EPA, World Bank); ii) Company disclosure (10-K, sustainability report, proxy report, AGM results, etc.) ; iii) Government databases, 1600+ media, NGO, other stakeholder sources regarding specific companies.

5.3 GRI

In reporting on the Performance Indicators, GRI requires the following guidance on data compilation to be followed: i) Reporting on trends. Information should be presented for the current reporting period (e.g., one year) and at least two previous periods, as well as future targets, where they have been established, for the short- and medium-term; ii) Use of protocols. Organizations should use the protocols that accompany the indicators when reporting on the Indicators. These give basic guidance on interpreting and compiling information; iii) Presentation of data. In some cases, ratios or normalized data are useful and appropriate formats for data presentation. If ratios or normalized data are used, absolute data should also be provided; iv) Data aggregation. Reporting organizations should determine the appropriate level of aggregation of information. See additional guidance in the General Reporting Notes section of the Guidelines.

Global reporting initiative (GRI)—sustainability reporting guidelines, version 3.1 provides for four principles for defining report content: i) Materiality. The information in a report should cover topics and indicators that reflect the organization’s significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders. ii) Stakeholder inclusiveness. The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests. iii) Sustainability context. The report should present the organization’s performance in the wider context of sustainability. iv) Completeness. Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect
significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organization’s performance in the reporting period.

5.4 Global 100

The global 100 ranking is driven by data, not judgment. Ranking is based on publicly disclosed data (e.g., financial filings, sustainability reports). All required data points are pre-populated. Submissions from companies are not required. Only data-points that are part of the public domain are used. For example, the primary data source of the supplier score are Bloomberg and CDP. 55

5.5 SA 8000

The data used by Social Accountability International does not come from third parties including the public data. Rather, it is collected and verified on-site of the certified corporations.

SA8000 is a voluntary standard for auditable third-party verification, and certification is only available per specific worksite. According to Social Accountability 8000 International Standard, a Social Performance Team (SPT) shall be established to implement all elements of SA8000. The Team shall include a balanced representation of SA8000 worker representative(s) and management. Compliance accountability for the Standard shall solely rest with Senior Management. The SPT shall conduct the assessments based on their recommended data and data collection techniques and in meaningful consultation with interested parties. 56

As of June 2012, there are 9 SAI offices, over 3,000 SA8000 certified facilities in 65 countries across 65 industrial sectors, employing over 1.8 million workers. There are also 21 SAAS Accredited Certification Bodies. Auditors from these certification bodies visit facilities and assess corporate practice on a wide range of criteria. A key part is to evaluate the performance of the company’s management systems to ensure the ongoing implementation of acceptable practices laid out in the SA8000 standard. 57

5.6 ISO 26000

As mentioned earlier, the ISO does not offer ranking/rating service based on the voluntary ISO 26000 standard. Therefore, the ISO will not release the data of the performance and compliance of ISO 26000 standard. However, the corporate users of ISO 26000 may release their own data on their own.

5.7 Summary

55 The 2017 Global 100: Overview of Methodology.
57 Social Accountability International - SA8000.standardsmap.org
Facts speak louder than words hard fact. The reliability of CSR performance ranking/rating depends on the authenticity, accuracy, completeness and coherence of the data. As a result of the challenge and risk associated with data reliability, CSR ranking/rating agencies have to take various self-protective strategies. CSRHub, MSCI ESG and Global 100, choose to take holistic and rigorous approach to filter out the unwanted, invalid data and information. For instance, CSRHub takes the six measures to remove most of the sources of bias and inconsistency.

GRI reporting guidelines chooses to shift the primary responsibility of collection and procession of data on the shoulder of reporting corporations, while retaining the authority of double check of the sustainable reports filed on the data base. Despite the four GRI principles for guiding report content, all the information and data reported in the sustainability reports of GRI standards are provided by the reporting corporations, not by the GRI. Therefore, it is an open question as to how to make sure the self-reported data is material, balanced, stakeholder-inclusive, complete and accurate in the wider context of sustainability.

Since Global 100 only uses public data, and no judgement is involved, the ranking outcome is more objective, instead of subjective. However, subjective elements might still exist, as the public data itself has been already processed or influenced by certain subjective methodology. And, it is not clear whether companies are permitted to submit data and if so, how such data is treated and processed by the Global 100.

As mentioned earlier, the data used by Social Accountability International does not come from third parties. Rather, it is collected and verified on-site of the certified corporations. Therefore, the credibility of the data on the actual level of fulfilling the SA8000 standard is up to the professionalism of the SAAS Accredited Certification Bodies.

As ISO 26000 is only voluntary International Standard and contains no certifiable requirement, no verified or audited data is involved in the process of implementation of the voluntary ISO 26000 standard. Therefore, ISO is not liable for any inaccurate and false data released by the corporations that have pledged the endorsement of the ISO 26000 standard.

6. Weakness and loopholes of current CSR ranking/rating systems

Many CSR related organizations are producing, marketing and selling their CSR ranking/rating products. For instance, managers, researchers and activists use CSRHub to benchmark company performance, learn how stakeholders evaluate company CSR practices and seek ways to change the world. MSCI ESG Ratings are designed to help investors to understand ESG risks and opportunities and integrate these factors into their portfolio construction and management process.

Despite the increasing users of the CSR ranking/rating products and the expansion of the CSR ranking/rating market, there are still serious weakness with the ranking/rating practice.
As pointed out by Mooij, the ESG initiative industry has turned into a web of confusion, and it is important that users are aware of the pitfalls of this proxy and that they proceed with caution.  

6.1 Limited number of corporations covered by ranking/rating systems

The number of corporations covered by the CSR ranking/rating is still very narrow and limited. Ranking/rating agencies often prioritize different categories of companies. Some only focus on large multinational corporations, some only cover certain domestic corporations, some only cover specific industries. Even those ranking/rating agencies that claim to have the broadest coverage only cover a small portion of corporate population around the world.

For example, CSRHub admits that none of their sources offer data on more than about 60% of the companies they cover.\(^{59}\) It only has data on approximately 100,000 companies, analyzes data on 12,527 companies, and issue ratings on 17,580 companies (about 67% of the companies they analyze data on). It offers full ratings on only 5,926 of these (about 70% of the companies they rate). It currently rates about 800 private companies, government agencies, and NFPs. It hopes its non-public company coverage will soon exceed that of public companies.\(^{60}\) Although CSRHub is actively working to increase the scope of their coverage, 17,484 companies represent a very small percentage, compared with the hundreds of millions of companies doing business around the globe.

Another illustration is that some CSR ranking agencies do not cover the CSR performance of each and every member of the multinational corporate group and its entire value chain as a whole.\(^{61}\) If parent corporations or subsidiaries are ignored, ranking/rating agencies will run into embarrassed difficulty in addressing conflicting ratings on the members of the multinational group.

6.2 Inadequate capture of CSR performance

Although many CSR ranking agents claim to capture the full spectrum of a corporation’s quality and its contribution to society, not all of the CSR requirements have been reflected in the indicators of the CSR ranking products. For instance, CSRHub tests the level of CSR performed in specific firms from the perspectives of community, employee, environment and governance. It covers the company’s human rights record and treatment of its supply chain, the

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\(^{58}\) Mooij, Stephanie, The ESG Rating and Ranking Industry; Vice or Virtue in the Adoption of Responsible Investment? (April 11, 2017). Available at SSRN: https://ssrn.com/abstract=2960869 or http://dx.doi.org/10.2139/ssrn.2960869

\(^{59}\)https://www.csrhub.com/content/csrhub-ratings-methodology/

\(^{60}\)https://www.csrhub.com/content/csrhub-rating-rules/

\(^{61}\)According to CSRHub, some sources rate company subsidiaries or individual products, while the ratings of CSRHub are given at the parent level of a company. It is difficult to fit together sometimes conflicting ratings on a company’s subsidiaries or on its products. https://www.csrhub.com/content/csrhub-ratings-methodology/
environmental and social impacts of the company’s products and services, and the development of sustainable products, processes and technologies. However, the “human rights” is a very broad concept encompassing three generation of human rights, including civil rights, political rights, and economic, social and cultural rights. Such an enormously rich concept has not been fully elaborated in precise details in the CSR ranking indictors.

6.3 Overlapping categories of indicators

Although the indicators of CSR performance are very broad, the borderlines between different categories and/or subcategories of indicators are not always clear cut, and different categories and/or subcategories may overlap each other. For instance, environment-friendly product standards reflects both a company’s loyalty to the local community and its commitment to the environment and ecosystem as a whole. Another example relevant to the CSRHub is that, the subcategory of labor rights and the subcategory of human rights and supply chain overlap, as labor rights are subcategories of human rights as the third generation human rights, economic, social & cultural rights.

6.4 Diverging ranking/rating methodologies

Different CSR ranking/rating agencies use different measurement methodologies, which make the conversion, normalization and comparing process challenging for the stakeholders especially the users of two or more CSR ranking products. For instance, some organizations give companies a numerical score (e.g., between 0.0 and 1.0), some use “+” or “-” signs, while some offer only a relative ranking (e.g., “Top 100” or “Best Performing”). Another example is that different sources may examine the same aspect of CSR performance through different criteria, which may lead to disparate ranking/ratings of the same phenomenon or performance.

As different measurement methodologies require different input of resources, lack of complicated expertise and solid funding support may lead to more general and less customized ranking/rating methodology. But, too general methodology usually contributes very little in helping corporate stakeholders identify the socially responsible and irresponsible corporations with precision in effective and efficient way.

6.5 Unreliable source of data

The source of data on CSR performance is not always reliable and easily verifiable. CSR ranking/rating outcomes rely on detailed data to support. The validity of the CSR data depends on several significant variables.

The first variable is whether the CSR performance is reviewed or evaluated by the stakeholders who are directly affected, influenced or controlled by the corporation. In practice, it is difficult to ensure that ranking/rating organizations collect the CSR performance data from the most affected corporate stakeholders, or have the CSR performance data directly verified by those stakeholders.
The second variable is whether the CSR source data is updated without delay. In reality, corporate CSR performance is changing all the time. Some CSR ranking agencies utilize the out-of-date data. CSRHub admits that, "Many of the sources utilized update their information only once per year. If a controversy arises regarding a particular company, it may take as much as two years for its effect to be reflected among the sources". It is necessary to limit the time span between the occurrence of CSR scandal and the release of the CSR ranking/rating products. Without spontaneous update of the CSR performance data, it is difficult to guarantee the fresh ranking/rating outcome.

The third variable is whether the CSR data could have a picture of each and every member of the multinational corporation and its value chain. According to CSRHub, some sources rate company subsidiaries or individual products. However, CSRHub ratings are given on the parent level. The intermediary process of converting ratings on subsidiary performance or product quality to ratings on the parent corporation can be difficult and prone to errors, as it can be challenging to incorporate and reconcile sometimes conflicting ratings on a company’s subsidiaries and its products.

It should be noted that, substantial data supporting the Ranking/rating outcome are provided by the corporations, sometimes simply by “tick the box” exercise. The Rate the Raters initiative by SustainAbility finds that, out of 108 rating organizations, about 60% rely completely or partially on information submitted by companies. There are too many and often duplicate questionnaires and much of the information asked for, is already public. The ESG rating organizations often cite that the goal of their ratings is to support PRI implementation.

6.6 Difficult availability to the average public

Some CSR ranking/rating reports are not made accessible to the public. For instance, CSRHub sells its CSR research reports at various prices. For instance, the Trucost Multi-Company Benchmark Report, a custom report created by the Trucost analyst team, is priced $9,200. While the input of the CSRHub on the CSR rating reports should be reimbursed, the audience of the CSR rating reports is limited to the buyers. If the general public, including the consumers, employees and retail investors do not afford the price of the ranking/rating reports, they will be unable to use the ranking/rating reports to support or boycott the corporation in question.

6.7 Different or conflicting ranking/rating results about the same corporation

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62https://www.csrhub.com/content/csrhub-ratings-methodology/
63https://www.csrhub.com/content/csrhub-ratings-methodology/
64Mooij, Stephanie, The ESG Rating and Ranking Industry; Vice or Virtue in the Adoption of Responsible Investment? (April 11, 2017). Available at SSRN: https://ssrn.com/abstract=2960869 or http://dx.doi.org/10.2139/ssrn.2960869
Different or conflicting ranking/rating results about the same corporation could compromise or destroy the credibility of the whole CSR ranking/rating industry. As different CSR rating agencies follow different philosophies, design different CSR indicators, and utilize various methodologies, the rating results about the same target corporation might vary, and even conflict each other.

The reason is that there are many different ways to measure the CSR performance from a single isolated perspective. It makes sense for different CSR agencies to take different pictures of CSR performance of the same company from different perspectives and criteria. For instance, some corporations could be very mean to their consumers and workers, but could be very generous in making donation to a university or church at the same time.

However, it might be confusing or misleading for the users of different CSR ranking products to examine and evaluate the same CSR performance or phenomenon. It is difficult and even impossible for a ranking/rating agency to persuade its customers to trust its ranking/rating product. Consequently, the only self-protective measure that the CSR ranking agencies could think about realistically is to use the disclaimer to warn their users to use caution in comparing the credibility of different CSR ranking products.

6.8 Negative effects of rampant disclaimers

The rampancy of disclaimers may further weaken the credibility of CSR ranking/rating products and industry as a whole. To escape from potential legal liabilities, many CSR ranking/rating agencies always warn their users with the following disclaimer: “There are currently almost no mandatory sustainability reporting regulations. The reporting requirements for corporate governance issues vary by jurisdiction, as do regulations on labor and community issues. We assume that our rating sources are only using publicly disclosed information in their evaluations of the CSR performance of the companies they cover and that they have taken reasonable steps to ensure that their information is accurate. However, it is possible that our rankings may contain information that has been improperly disclosed or that is inaccurate. We strongly advise our users not to use our data as the basis for any investment decisions. We also advise against using our data for any legal or regulatory action. You may also wish to obtain additional information from the sources we used to form our rating or from the company we are rating, before taking any social action for or against a company”.

It is also very common for some agencies to make the following statement, “The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. None of the information providers makes any express or implied warranties or representations with respect to the information (or the results to be obtained by the use thereof), and to the maximum extent permitted by applicable law, each information provider expressly disclaims all implied warranties (including, without limitation, any implied warranties of originality, accuracy, timeliness, non-infringement, completeness, merchantability and fitness

65 Ibid.
for a particular purpose) with respect to any of the information. Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors. Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results. The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons”.

In fact, the disclaimer is a two-fold sword. On the one hand, it will serve as shield against the potential litigation from the potential users of the CSR ranking/rating products and other bona-fide stakeholders. On the other hand, the disclaimer indicates that the ranking/rating agencies lack adequate confidence in the accuracy, integrity and reliability of the ranking/rating products. As a result, corporate stakeholders will be less motivated to purchase the CSR ranking/rating products including reliable products only because of the low self-confident ranking/rating agencies.

7. Conclusion: Recommendations for improving CSR ranking/rating system

First, we argue that the number of corporations covered by the CSR rating should be expanded based on global collaboration. In ever increasingly globalized world, it is easy for a firm to do business cross-border, which implies great risk spillover of global level. For instance, a malicious software virus developed by an internet hiking corporation could cause serious damage to many internet users without boarder. All the CSR ranking/rating agencies should not be satisfied with the current limited coverage. The goal of the ranking/rating industry is to provide consistent ranking/ratings of CSR performance for as broad a range of companies as possible. Given this goal, we propose to set up an inclusive dual-track global collaboration mechanism. On the one hand, the UN and its affiliated organizations should play a role in encouraging governments in both developed countries and developing countries to share and exchange all the CSR-related data they have gathered in the domestic regulatory process, except for the sensitive data for the purpose of national security. As the first step, all the public informations and data on the registration and penalties of corporations should be exchanged around the world. On the other hand, the business corporations and CSR ranking/rating organizations should be encouraged to work together to share the basic CSR information and data with the public stakeholders. Of course, CSR ranking/rating organizations should be

66https://www.msci.com/eqb/methodology/meth_docs/ESG_Universal_Index_Methodology.pdf
Similar disclaimers could also be found at: https://www.msci.com/legals
encouraged to develop some tailor-made products for certain VIP clients for commercial purpose.

Second, the groups of beneficial stakeholders should be expanded to enable the core interest concerns of each and every stakeholder to be reflected in the more comprehensive and representative indicators. The CSR performance indicators will be unable to capture the full spectrum of a CSR quality without the identification of inclusive stakeholders. Although the stakeholders highlighted by the major CSR ranking/rating agencies have already gone beyond the traditional shareholders, not all the stakeholders influenced, affected or controlled by the corporate activities have been covered. Therefore, shareholders/providers of capital, consumers/customers/clients/purchasers, employees/workers, trade unions, civil society, suppliers, community residents, government officials, the next generations and the global community as a whole should be included and engaged. Under human-centered business model, our future generations, though not born yet, should be taken into account in the process of major corporate decisions affecting the future. To some extent, the wild animals and the extinguishing species should be also recognized as beneficiary stakeholders of corporations.

Third, the CSR indicators should be accurate, balanced, clear, coherent, compatible, complete, concise, convertible and comparable. To be accurate, the key indicators should be quantifiable by math tools. To be consistent and coherent, the classification of the categories and subcategories of CSR indicators should be further clarified. To make all the indicators compatible, convertible and comparable globally, it is necessary to develop a global guideline on the CSR indicators of human-centered business models based on the consensus of the ranking/rating industry and the assistance of International Standardization Organization (ISO) in the future. The indicators should be diverse, inclusive and flexible enough to fairly reflect both specific and common CSR characteristics of various firms in different industries, jurisdictions and cultures. For instance, employees’ rights may take different forms and demand different mechanisms to realize in different jurisdictions. China has the tradition to protect the employees’ participation on corporate democratic management in public firms, private and ownership-mixed firms by and through the trade union and the congress of employees. China also pays attention to engage and protect the employees to act as whistleblowers of business corruptions and misbehaviors. Germany represents even more aggressive model of co-determination to empower the employees representatives on the Board of Supervisors. However, such mechanisms in China and Germany are not common in American companies. Therefore, the one-size-fits all CSR performance indicators should be replaces with flexible and customized versions.

Fourth, it is time for the CSR ranking/rating and measurement methodology to be harmonized and uniformed in a global way. The past years have witnessed very fierce competition between CSR ranking/rating companies that lead to highly diversified and diverging CSR ranking/rating and measurement methodologies. It is necessary to CSR ranking/rating agencies to engage and communicate with their users, the stakeholders and the ranked/rated companies, so as to learn their wholehearted evaluations, criticisms, expectations and suggestions. Scientific CSR ranking/rating and measurement methodologies have no border. Like the global partnership on
developing uniform CSR indicators mentioned above, the global convergence and uniformity of CSR rating and measurement methodology is both necessary and feasible with the help of fair competition of the ranking/industry and inclusive interactions between the ranking/industry and the stakeholders of corporate world. Despite the diversity requirements, all CSR ranking/rating and measurement methodologies should follow the following principles, including but not confined to authenticity, objectivity, accuracy, verifiability, relevance, completeness, balance, materiality, timeliness, clarity, transparency, public availability, comparability, stakeholder inclusiveness and stakeholders engagement.

Fifth, an authentic, reliable, verifiable, lively updated and publicly available CSR data bank should be set in motion. Current CSR ranking/rating products, as processed by the CSR ranking agencies under their own formulas and recipes, are inevitably subjective, even biased or arbitrary from different contexts of jurisdictions and cultures. In contrast, the original CSR data is usually objective and verifiable by direct fact or evidence. Therefore, the big data on global CSR performance is not only more useful for the purpose of advancing the quality of CSR ranking products based on big analysis of CSR, but also more straightforward, more reliable, more user-friendly, and less costly for the stakeholders. This will also drive the tag price of the CSR ranking/rating products down to reasonable level. The reason is obvious. Vendors in the shopping mall have to keep the price of bottled water at reasonable level, if free tap water in the mall is available for the customers. Further, global CSR data bank will also create win-win opportunities for CSR ranking/rating corporations in terms of larger global market of CSR ranking/rating products and more global strategic partners in the industry.

Sixth, the mechanism of independent third party audit should be in place to advance the credibility of the CSR ranking/rating products ranging from the ranking/rating process to the merit of outcome. It is a generally accepted practice for the corporate and governmental bonds to be evaluated by rating agencies in the financial market. Similar idea is also implemented in the universities/colleges ranking practice. Wall Street Journal/Times Higher Education claims that the calculation of the rankings for 2016-2017 has been subject to independent audit by the professional services firm PricewaterhouseCoopers (PwC). 67 However, some CSR rating agencies have not engaged in the independent audit mechanism yet. We urge the CSR rating agencies to be subject to really independent audit. The audit firms should be independent from both the CSR rating agencies and the corporations to be ranked/rated, and should act in the best interest of the public users of the CSR rating products. In theory, the audit firms are the trustees or agents of the end users of CSR reports, not the CSR rating agencies or the corporations to be

67 PwC confirmed that the audit for the forthcoming World University Rankings 2016-2017 had been completed successfully. Sam Tomlinson, partner, PwC UK, said: “Times Higher Education’s World University Rankings 2016-2017 will list world-class universities, and showcase their performance across research, teaching, international outlook and knowledge transfer. PwC is delighted to provide rigorous independent assurance over the calculation of these rankings. “Our audit work included testing the key controls to capture and handle data, and a full re-performance of the calculation of the rankings.” For the details, please visit: https://www.timeshighereducation.com/news/world-university-rankings-2016-2017-passes-independent-audit
ranked/rated. The end users of CSR ranking/rating report is the principal and beneficiary in the legal relationship with the audit firms (trustees). Therefore, the audit firms should fulfill their fiduciary duty, including the duty of loyalty and the duty of diligence, prudence, experience, skill and care towards the public beneficiaries, instead of the CSR rating agencies or the corporations to be ranked/rated.

Seventh, the market of CSR ranking/rating should be regulated in case of the failure of self regulation. In most circumstances, the invisible hand including contractual freedom between CSR ranking/rating agencies and their customers, and fair competition between CSR ranking/rating agencies is more effective and efficient than governmental regulation. Market is always smarter than the government. However, market failures do happen when contractual fraud and unfair competition prevail in the market. Driven by profit maximization, some CSR ranking/rating agencies might fail or refuse to meet the stringent standard of fiduciary duty, professionalism and craftsmanship. Any false or misleading CSR ranking/rating reports could be disastrous, as either the corporations to be ranked/rated, or the stakeholders of the corporations will be hurt. In the case of failure of invisible hand of the market, the visible hand of the legislature, the government and the judiciary should step in to restore the contractual justice and level playing field. It is necessary for the national legislatures to make legislation on the CSR ranking/rating industry, and it will be helpful for the UN or OECD/G20 to develop a Model Law on the CSR ranking/rating industry.

Eighth, corporate governance should be reformed based on human-centered business model in both CSR ranking/rating agencies and the corporations to be ranked/rated. Traditional corporate governance is capital/profit-centered, and both the shareholders and the management are eager to pursue the short-term interest of the corporation in the corporate decision making process. Even the independent directors on the board are not really independent, because they are supposed to advocate for the interest of public investors or retail investors. But both institutional and retail investors, both controlling and minority shareholder are all the members of the community of corporate insiders, when they have interest conflicts with the outsiders or non-shareholder constituencies of the corporation. To safeguard the integrity and virtue of the independent directors, it should be a best practice for the truly independent directors capable of fairly representing and advocating all the corporate stakeholders to be introduced into the board of directors. Co-determination between shareholder representatives and other stakeholder representatives could make great difference for the sustainable growth of the CSR ranking/rating agencies and the corporations to be ranked/rated. Wise corporations may also set up a committee of CSR/human-centered business model under the board of directors. While traditional corporate law and securities law focus on the disclosure of financial information to the shareholders including public investors, non-financial information on human-centered business model should be also incorporated in the mandatory disclosure requirements. Therefore, three elements of good corporate governance should be kept in the mind of shareholders, directors and the senior executives of the CSR ranking/rating agencies and the corporations to be ranked/rated: corporate value of human-centered business model, well-structured board composition and transparency. It is not enough to focus on the performance of CSR/human-centered business model in the corporations to be
ranked/rated, it is equally important or even more important to pay attention to the performance of the CSR ranking/rating agencies. The reason is that the CSR ranking/rating agencies are supposed to have both higher moral and professional standard than the corporations to be ranked/rated. Either the ten principles developed by GRI sustainability reporting guidelines, or the seven principles developed by the Global 100, has demonstrated the core value of the CSR ranking/rating agencies. However, practice is more important than promise, self-regulation is always difficult but more important than regulation of other people.

Ninth, it is important to differentiate the CSR ranking and CSR rating. Although some CSR organization use the words “CSR ranking” and “CSR rating” interchangeably, ranking and rating are different in many significant respects. One of the major differences is what the values are relative to. Rank is relative to the other corporations being ranked, and rating is relative to a predetermined value scale. Therefore, two corporations can have the same ranking result. At least in theory, CSR performance might be more suitable for rating instead of ranking. However, opinions may diverge on this point. The undisputed bottom line of the best practice is that the CSR ranking/rating organizations should explain to their users whether and why there is, or there is no, difference between rating and ranking.

Reference

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23. A variety of ranking systems published by the International Organization for Standardization (ISO), through the OMNEX website. Note: links are on the left-hand sidebars: http://www.omnex.com/members/standards/iso14001/iso_14001.aspx