Corpоrate Social Responsibility of European Business

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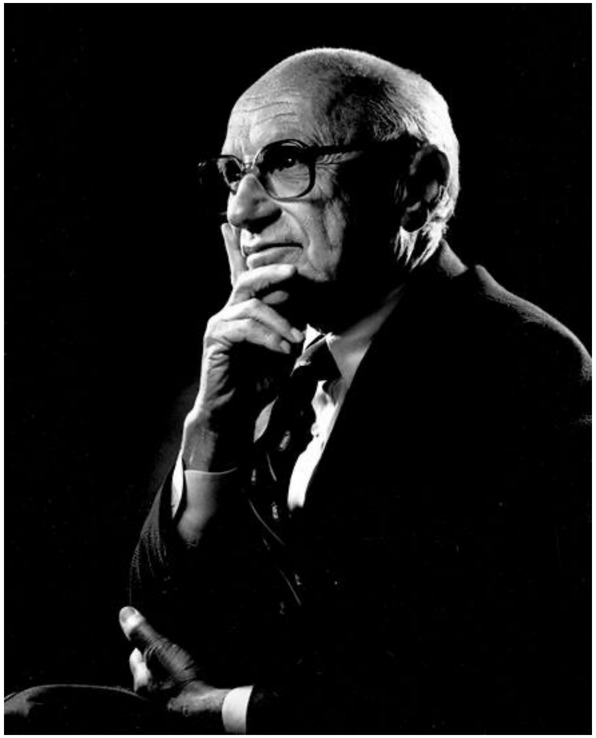
WHAT IS THE MAIN GOAL OF A BUSINESS?

"… 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 in the rules of the game, which is to say, engages in open and free competition, without deception or fraud".



Milton Friedman

https://lucidmanager.org/milton-friedman-corporate-social-responsibility/

Erasmus Module on European Studies in Business and Economics Finance

CSR Dilemma

SHARE HOLDER CAPITALISM

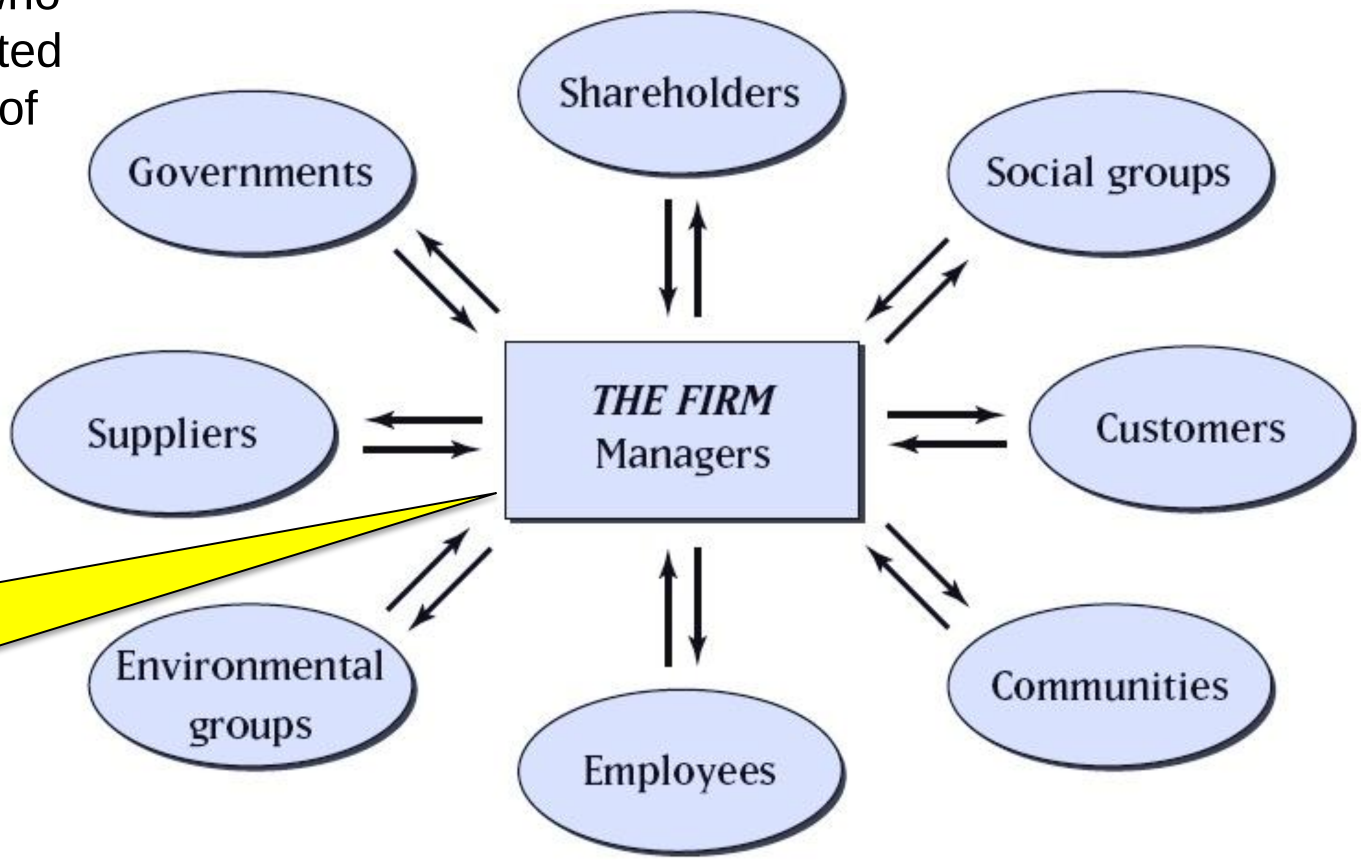
Profit is MNC's only goal

MNCs should anticipate and solve social needs

CSR

All stakeholders have an equal right to bargain for a "fair deal"

STAKEHOLDER – any group or individual who can affect or is affected by the achievement of the organization's objectives

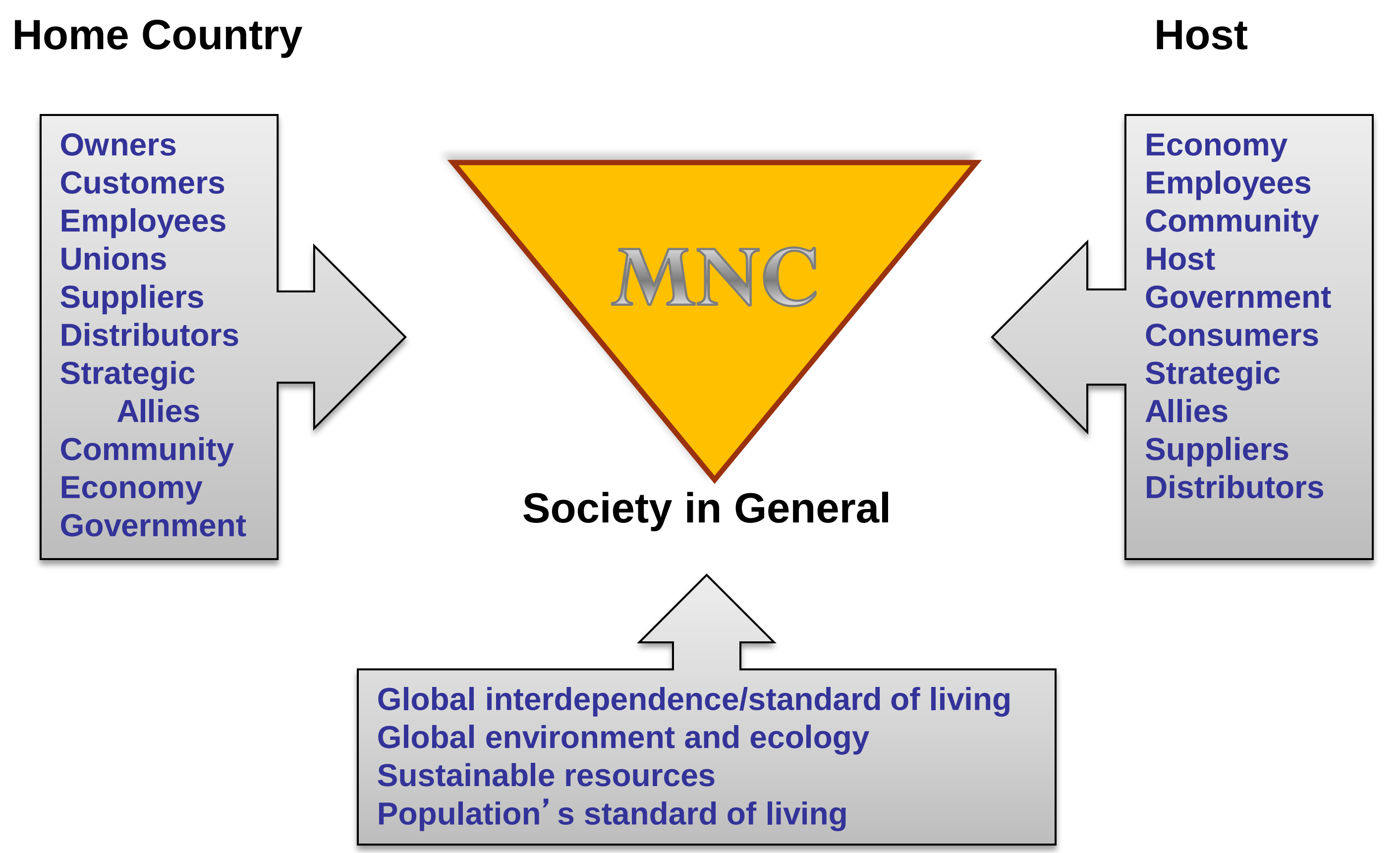


Managers are uniquely positioned

Source: Adapted from T. Donaldson & L. Preston, 1995, The stakeholder theory of the corporation: Concepts, evidence, and implications (p. 69), Academy of Management Review, *20: 65–91.*

Figure 12.1

MNC Stakeholders



CSR:

HOW?

IN ROME DO LIKE ROMANS DO?

General Guidelines for Code of Morality and Ethics in Individual Countries

Moral Universalism

- **Addressing the need for a moral standard that is accepted by all cultures**

Ethnocentric Approach

- **Applying the morality used in home country—regardless of the host country's system of ethics**

Ethical Relativism

- **Adopting the local moral code of whatever country in which a firm is operating**

International Codes of Conduct

The Sweatshop Code of Conduct

The Electronic Industry Code of Conduct (EICC)
- Bans forced and child labor and excessive overtime
- Basic environmental requirements
- Common factory inspection system to audit overseas suppliers to ensure compliance

Social Accountability 8000 (SA 8000)

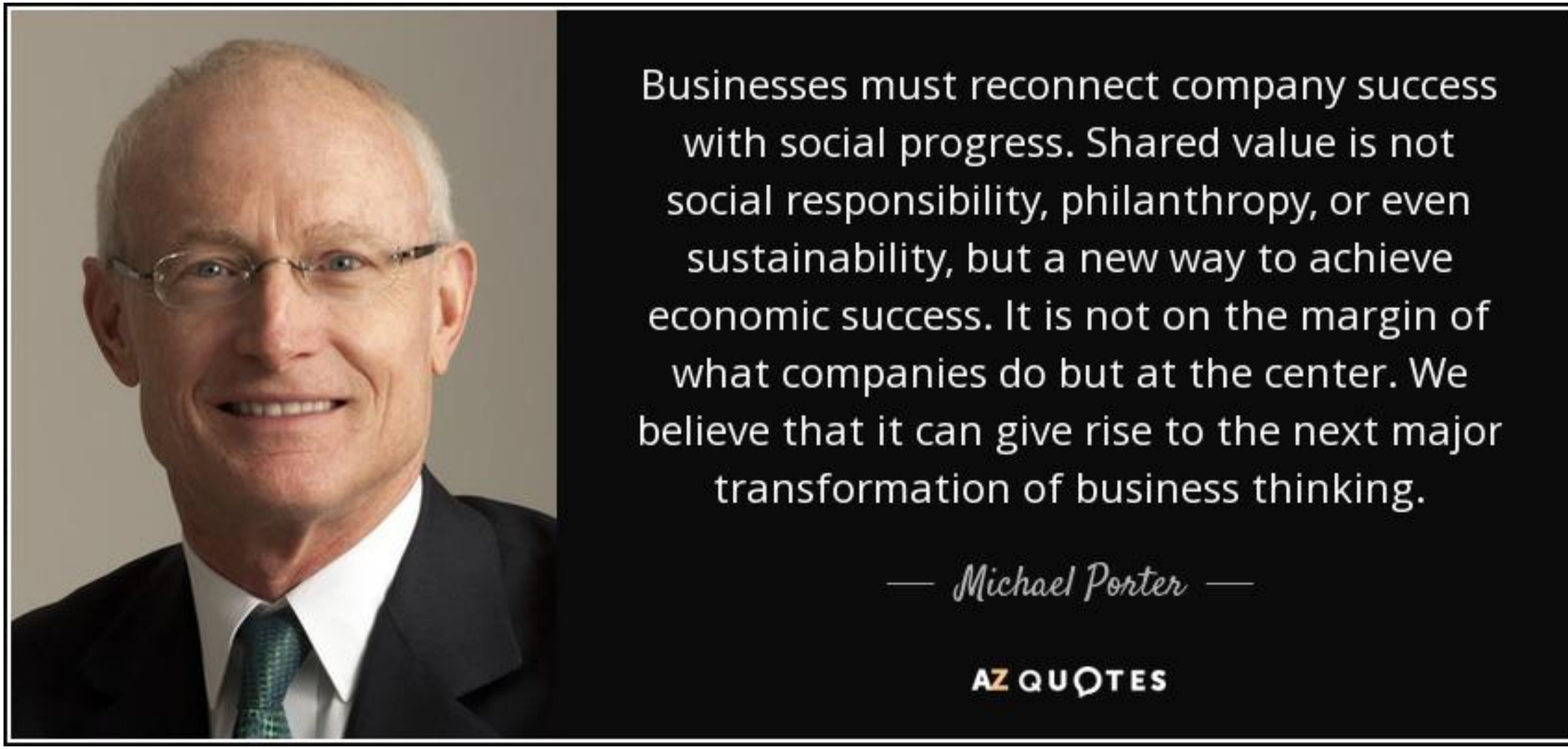
Guidelines for MNCs developed by:
- International Chamber of Commerce
- OECD
- International Labor Organization
- UN Commission on Transnational Corporations

CSR:

POTENTIAL BENEFITS?

CSR → PROFIT?

CSR = “GREENWASHING”?



https://www.azquotes.com/quote/797287

TRADITIONAL ECONOMY

take – make – consume - throw away

CIRCULAR ECONOMY

products are designed in order to facilitate reuse or the life cycle of products is extended through:

- improved durability,
- more efficient waste management or
- better design that makes it easier to repair, reuse or remanufacture old products.
- new business models based on leasing, sharing or selling pre-owned products.

https://www.europarl.europa.eu/news/en/headlines/economy/20150701STO72956/circular-economy-the-importance-of-re-using-products-and-materials

CSR:

WHY NOW?

Global sustainability –

ability "to meet the needs of the present without compromising the ability of future generations to meet their needs"

https://academicimpact.un.org/content/sustainability

Sustainable Development Goals

https://sustainabledevelopment.un.org/sdgs

FORCES MOVING THE SUSTAINABILITY MARKET

Policy driven by Governments and NGOs

- Paris Accord in 2015 (COP 21)
- UN Sustainable Development Goals (SDG)
- Task on Climate-related Financial Disclosures (TCFD)

PARIS2015 UN CLIMATE CHANGE CONFERENCE COP21·CMP11

SUSTAINABLE DEVELOPMENT GOALS

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Demand from stakeholders

- Increased request for transparency when allocating capital
- Desire to understand the additional risks associated with a company's business model
- Deeper understanding of the impact of greenhouse gases on the planet, its species, and ultimately, the investment portfolio.

Regulatory pressures

- **Article 173** in France calling for investors to disclose the carbon footprint for their portfolios.
- Tightening of regional regulation limiting the amount of emissions companies are permitted to expel with regard to the Paris Accord, forcing companies to access the carbon credit markets for offset.

Company ethos and business model resilience

- Companies looking to mitigate risks to business models.
- Companies looking to reduce impact of future regulation by recalibrating their business models today.
- Companies proactively reducing the chances of reputational damage that could occur at a future date.

Socially responsible investing (SRI)

Nowadays more and more investors apply SRI because they deliberately want to have a **positive impact on society**, whether in their local community, regionally or globally. The weighting of the social impact is the primary goal, while profit generation is secondary or tertiary.

Example: building a hospital in an underserved area.

- *Primary motive - to provide access to healthcare for the local community.*
- *Second goal - to promote further investment in the local community*
- *Third goal - profit generation.*

Six environmental objectives

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy, waste prevention and recycling
- Pollution prevention and control
- Protection of healthy ecosystems

EU Taxonomy

The EU is developing a definition of what will constitute eligibility for sustainable finance.

To meet the definition of an ‘environmentally sustainable” the economic activity must:

- Contribute substantially to one or more of the objectives
- Do no significant harm to any other environmental objective
- Comply with min social safeguards and technical screening criteria

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf

Environmental, social and governance (ESG) criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments.

E S G

Environmental data analysis studies how a company operates its business from an environmental viewpoint.

Examples of indicators:

- Carbon footprint
- Green/brown energy mix
- Energy transition policy in place
- Green energy used today
- Green energy investment
- Carbon mitigation practices
- Water usage
- Waste
- Plastics policy
- Environmental catastrophes
- De-forestation policy
- Fossil fuel development policy
- Pollution targets
- Clean water impact policies

Social data analysis encompasses health, welfare and education, both internal to a company’s operations and the products or services it provides.

Examples indicators:

- Clear marketing communications
- Product compliance with local regulations
- Appropriate product warnings
- Accurate product information and labelling
- Community investment/interaction

Governance data analysis of a company’s operations focuses on how its senior management executes its business.

Examples of indicators:

- Independence of CEO or chairperson
- Board diversity
- Board independence
- Corruption
- Shareholders’ rights

ESG analysis typically also assesses *business involvements* and *business controversies*.

https://bnpp-singletrack.s3.eu-west-2.amazonaws.com/376921_080419100218.pdf?X-Amz-Algorithm=AWS4-HMAC-SHA256&X-Amz-Credential=AKIAI7DGE6BGIQATBLRQ%2F20200225%2Feu-west-2%2Fs3%2Faws4_request&X-Amz-Date=20200225T000000Z&X-Amz-Expires=86400&X-Amz-Signature=6e015e85213cd04337402091ad85703742ec8154dc96176cebcc31a8924f87bd&X-Amz-SignedHeaders=host

ESG in practice

ESG scores are not expressed on a consistent scale

(in some 0–100 scales 0 is the best and in others the worst).

Scores tend to be relatively stable over time.

- **E scores** are typically most meaningful when comparing companies in similar industries, markets or regions (scores of a utility company vs financial-services company can be compared via Z-scoring)
- For **S scores**, too, companies in similar industries/markets will have comparable standards, regulations and policies with regards to employees, products and customers.
- **G scores** tend to be higher, on average, for companies in Europe (and also North America) than those in other parts of the world, with some notable exceptions.

ESG: Governance first

Governance is the key to establishing, embedding, and enforcing environmental and social policy in companies. A low G score is a potential risk in two ways:

- if the company's score is significantly lower than the G score of its peers
- If the company's score is substantially lower than with its own E and S scores.

Below is an example of Company X's ESG scores on a scale of 0 (worst) to 100 (best), presented alongside two companies in the same industry and region.

	ESG	E	S	G
Company X	61	81	72	30

The G score is significantly lower than its E and S scores. This should prompt further examination, as it is possible, but not probable, to have high E and S scores and a low G score.

Is there a risk that the governance is not strong enough to direct and maintain the comparatively high environmental and social scores over time?

	ESG	E	S	G
Company X	61	81	72	30
Company Y	70	86	70	54
Company Z	66	82	65	51

Company X has a much lower G score than Company Y and Company Z, both of which are in the same industry and the same region. This is an outlier result that should trigger further investigation to understand the discrepancy.

Business controversies

Involve illegal or socially unacceptable practices that pose a very real risk to the investor.

Examples:

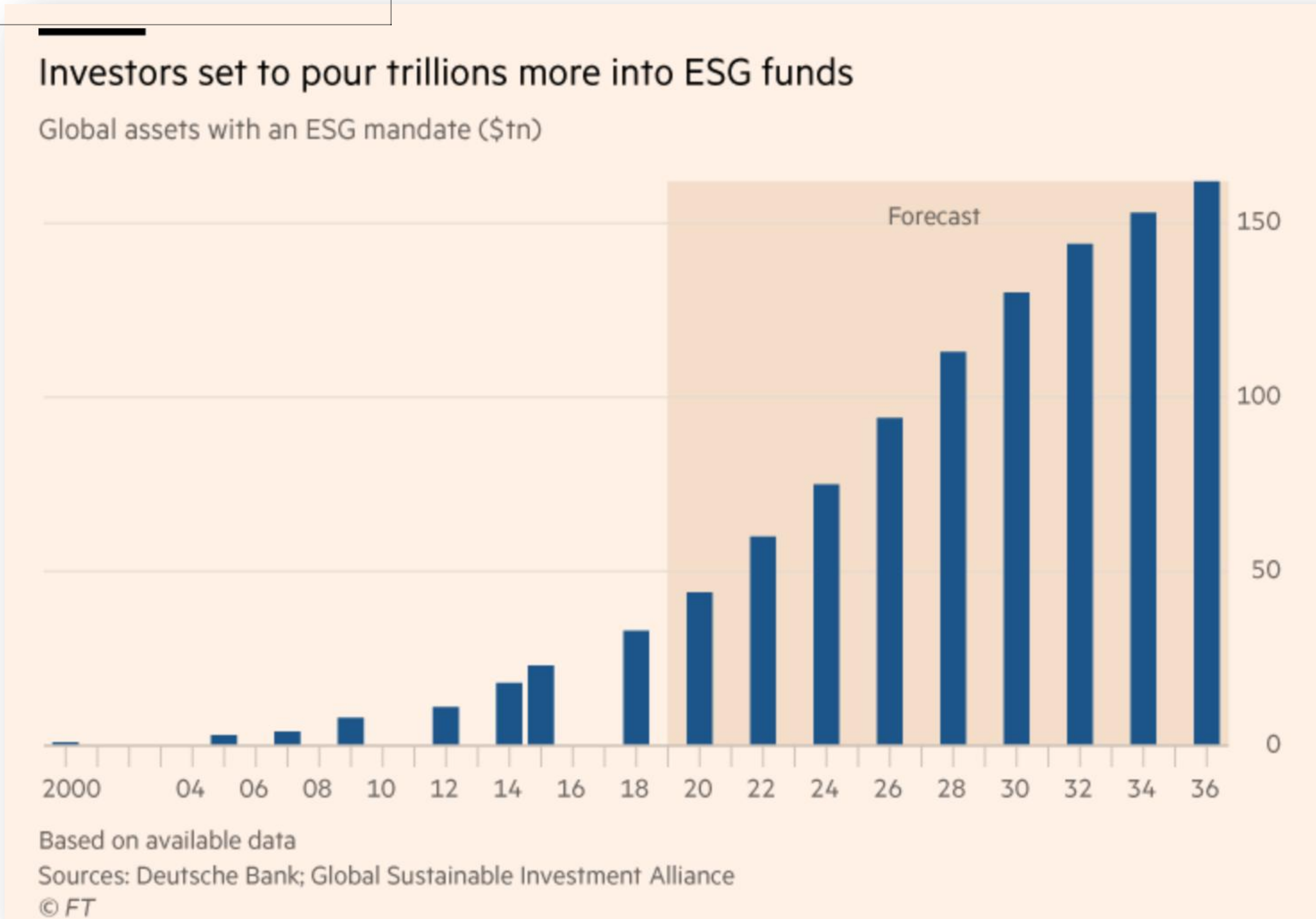
- Pollution
- Labour rights
- Corruption
- Community impact
- Product labelling
- Diversity and inclusion
- Shareholder rights

Business involvement

Describes how a company earns its revenue through a core business activity.

Examples:

- Controversial weapons
- Tobacco
- Nuclear energy
- Fossil fuels
- Gambling
- Alcohol
- Genetically modified organisms



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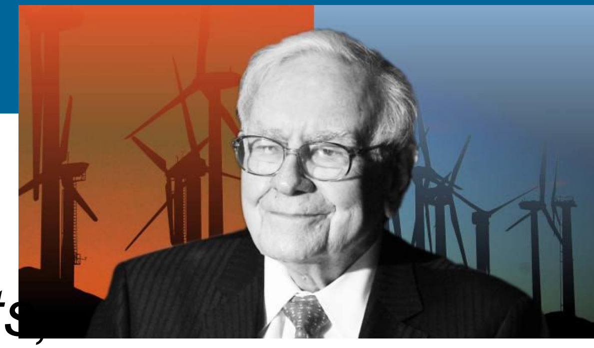
GLOBAL SUSTAINABILITY –

A GOAL OF BUSINESS?



"If people want us to junk our coal plants
either our shareholders or the consumer is going to pay for it. You can argue that unfortunately the consumer pays for it, but then the trouble is they pay for it if they happen to live in the place where a utility has 50 per cent [of their energy] coming from coal. If they happen to be in some other territory, they don't pay for it. So, there's a cost to somebody . . . the question is how it gets absorbed, but overwhelmingly that has to be a governmental activity."
"The government has to play the part of modifying a market system."

Warren Baffett

https://www.ft.com/content/ebbc9b46-1754-11ea-9ee4-11f260415385

Thank You!
Any Questions?