

Ethics, Reputation and Competitiveness

Davide Dal Maso

(Director, Avanzi SRI Research)

Avanzi SRI's studies aim at integrating corporate social responsibility and corporate governance research. In other words, we look at whether and how companies' management systems deals with ethical, social and environmental concerns. We think that they should include the establishment and dissemination of CSR policy, establishment of clear accountability for the policy, its implementation through appropriate systems, consultation with stakeholders over the policy, the setting and reporting on targets, reporting on performance, and independent verification of the whole process and outcomes. To say it differently, we see corporate responsibility as an integral part of corporate governance and our reports therefore identify key CSR issues.

Many institutional investors – not only those “labelled” as socially responsible – feel that to be successful in the long term, companies should recognise the impacts of their activities on all stakeholders. It is in shareholders' interests that they develop appropriate systems to manage these impacts. This will allow them to improve risk management, mitigate liabilities, improve performance through less wasteful use of resources and to reduce the company's environmental footprint, as well as adding value to the company's businesses.

Currently, there is an absence of agreed standards on these issues and therefore several aspects of companies management systems have to be investigated to provide a consistent and trustworthy picture of their real commitment. Hence, transparency is essential for providing improved information to the market and for ensuring accountability.

The evidence from the research that we run over Italian listed companies shows that there is still a lot of work to do in order to achieve a full integration of CSR issues into CG systems. Corporations, with few remarkable exceptions, seem reluctant to commit up to a stage where social objectives are assigned with full responsibility to governance structures. CSR therefore remains a “parallel” domain, that does not involve all roles in the organisation. Only specialists deals with it and the Board as well as other top managers show little or no consideration for the social or environmental impacts of the business.

There is no need for regulatory reform: with existing corporate governance standards, companies could do a lot to improve their governance systems as far as CSR issues are concerned, either acting individually or at industry level.

On the other hand, one has to note that the demand of CSR is still rather weak: if investors start looking at how companies handle with it, the overall level of awareness amongst consumers, media and public opinion is not strong enough to reward best practices or to punish dishonest behaviour. The incentive for companies, therefore, is not robust enough to justify investments in this area.