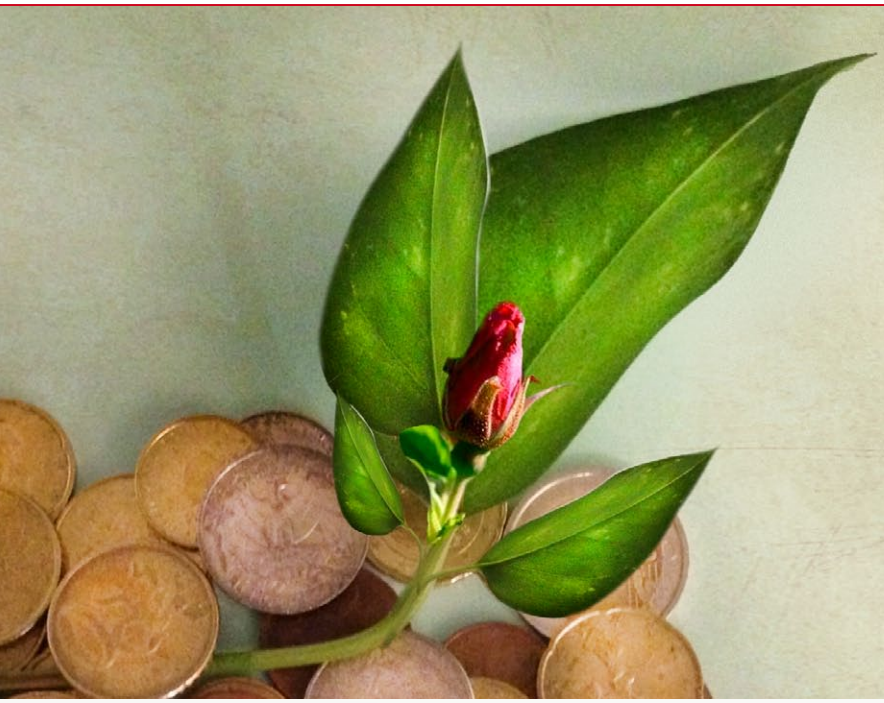


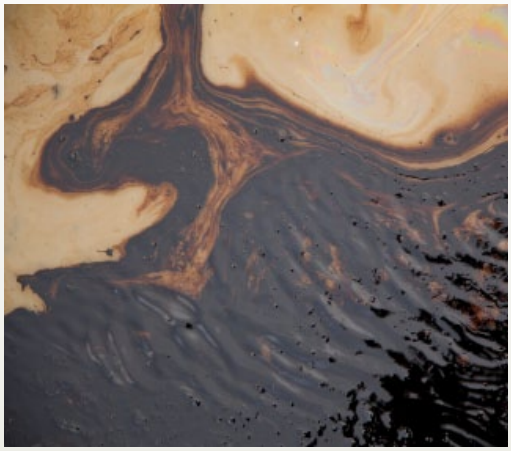
Corporate Responsibility: a different way of approaching business (part 2)

In the first part of this article, which was published on 11 February 2013, we described CSR intended as a sustainable approach to corporate management, its evolution and the development of accounting tools capable of measuring the results achieved for the benefit of stakeholders.

Being responsible today

To be responsible today is a new challenge. The financial crisis has eroded corporate legitimacy as well as undermined the credibility of Corporate Social Responsibility (CSR) at a time when many banks and insurance companies, overrun by the downturn, were implementing praiseworthy action in terms of sustainability. Companies have been accused of making profits without taking into account related social and environmental implications. The images are still fresh on our minds of employees filling boxes with their personal belongings and quitting office premises that had been shut down, or of the environmental disaster caused by BP (British Petroleum), the petroleum company that prior to the calamity had emerged as one of the most "sustainable" in the oil business. British Petroleum, it should be recalled, had been issuing sustainability reports since 1998 and included in the principal sustainability indices.

It has clearly emerged that the inclusion in ethical indices or, more generally speaking, the assessment on the part of independent bodies of a wide range of indicators, namely economic, social, environmental and pertaining to governance, does not necessarily imply that a specific company is sustainable. It often occurs that rating agencies fail to give more weight to those indicators that are truly crucial in the sector under examination. In the case of BP, for example, the company had not been investing in a significant way on the safety and maintenance of its plants, failing to monitor and run checks on a more regular basis. Had these elements been taken into due consideration, it would have been possible to foresee that something was bound to happen sooner or later.



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These and other episodes triggered a chain reaction that involved society at large, generating distrust for the corporate world especially for those companies declaring a CSR approach to business.
In this scenario companies are called, above all else, to rebuild trust and credibility, and must do so in a responsible, trustworthy and transparent manner, firmly bearing in mind that to be responsible for a company means, first and foremost, to do one's job properly, thereby creating the conditions allowing stakeholders to do theirs.
CSR must not be utilised as a label or intended as a greenwashing activity but must become the instrument through which business reconciles itself with society at large.
CSR is also the way in which you react or face up to the challenges arising from wrong choices or the failure to fully implement terms and conditions: to

be transparent and to solve the problem in a responsible manner is proof of maturity and willingness to avoid a confrontational approach.

The Nike case: the supply chain

In 1998, Nike, the sports apparel multinational, faced criticism for the abuse of human rights – child labour as well as violations of laws governing overtime, minimum wages and trade union relations – in its supply chain in a number of eastern Asian countries. A case in point concerned the discovery in Cambodia of sweatshops run by Nike suppliers. Pressed by US government bodies, the Cambodian government authorised International Labour Organisation delegates to inspect factories where Nike products were manufactured. The consequent ILO report highlighted harrowing working conditions for staff at Nike sweatshops. Under the threat of a consumer boycott and for fear of an irreversible damage in terms of bad publicity, the company decided to break all relations with local suppliers, seriously affecting the textile industry that in Cambodia at time employed some 180,000 workers. From a CSR perspective, the immediate step was not the assumption of responsibility; the issue was not tackled and thousands of workers lost their jobs. It was only at a successive stage that Nike's threat of pulling out of the country was used as a tool to exert pressure on the Cambodian government, which was left with no option but to enforce laws aimed at improving working conditions for factory workers. In 2002, Nike renewed manufacturing contracts with Cambodian suppliers. This and other episodes occurring elsewhere led Nike to tackle the issue of human rights compliance in its supply chain by setting company labour compliance targets starting from 2005. Ever since, Nike has liaised closely with its suppliers to ensure workers' rights and labour compliance. These results were achieved also with the backing of the Fair Labour Association (FLA), a non-profit organisation promoting the compliance with and application of domestic and international labour laws that sees the participation of enterprises, universities and civil society organisations (NGOs, trade unions and various associations), and of the Fair Factories Clearinghouse (FFC), a database that allows member companies to share socio-environmental audits on suppliers, which are often common to many companies.

www.nikeinc.com

Nike was one of the first companies to disclose its suppliers' list and the way its raw materials supply chain operates. A map is available on the Nike site (see an image on the right) indicating the countries where its suppliers are located. For each country information is given concerning supply type and the number and name of suppliers. In addition, the number of employees is also given with details regarding the number of women and average age of workers.

With a view to tackling complex situations in a responsible way, it is necessary for management to apply, first and foremost, the CSR method in the running of the company ensuring that it becomes concrete action. To create value, management must take into account corporate demands as well as those related to society and the environment by implementing a **win-win perspective**, which means achieving good results in terms of corporate profits and competitiveness, on the one hand, and meeting stakeholder expectations on the other.
A virtuous cycle is thus generated in which the satisfied clients show confidence in and give stability to the company, staff injects competencies and skill for good wages and improved career prospects, and suppliers become an active part of the production cycle, while society and institutions alike provide a favourable backdrop as the company contributes to improving the quality of life and the environment.

This virtuous cycle is based on a set of values shared and respected by both enterprises and stakeholders. A number of macro themes can be pointed out that involve enterprises and stakeholders, providing and imposing to each side rights and duties: respect for human rights and the interests of workers; adequate workplace standards in terms of health and safety; commitment to combating workplace discrimination; zero tolerance with regard to corruption, fraud and money laundering; respect for the environment; quality products and services; responsible management of money flows etc.
The values and principles a company decides to comply with and apply in the management of its activities are often outlined in its **ethical code**, a voluntary document that acts as a sort of corporate "Constitutional Chart" where the rights and duties of all stakeholders are outlined. This type of document may have dif-

Rating agencies and ethical indexes

Rating agencies are private entities that assign ratings on the financial solidity of a given issuer by assessing the probability of its insolvency.
Alongside these agencies – often within them – ethical rating specialists provide assessment on companies based on environmental, social and governance factors (ESG rating).
Based on publicly disclosed information (official documents and website content) as well as on questionnaires distributed to companies, ethical ratings provide performance highlights not unlike those compiled to measure financial operations by Moody's, Standard & Poor's or Fitch.
The earliest ethical index, the **Dow Jones Sustainability Index (DJSI)** was created in 1999 by Dow Jones, world leader in the area of financial indices, in cooperation with SAM, the rating agency.
Starting 2001, the London Stock Exchange established **Ftse4Good**, which operates with Ethical Investment Research Services (EIRIS).
There are currently several ethical indexes to the extent that it is possible to talk about families or series of ethical indices. Alongside DJSI, which includes a number of indices, namely DJSI World, which takes into account the ESG performance of some 10% of the world's principal 2,500 listed companies, other sustainability index series too provide ethical ratings – Ethibel Sustainability, MSCI, STOXX, ECPI, to mention but a few.
In addition, there are agencies that assign ratings on a single aspect of social responsibility, for example, focusing solely on the environmental dimension as is the case of the **Carbon Disclosure Leadership Index**, which assesses the performance of a company in reducing greenhouse gas emissions, or of the Ftse Cdp Carbon Strategy Index, which measures the exposure of individual companies to higher future costs associated with greenhouse gas emissions.

Ethical rating agencies, like financial-oriented rating agencies, have come under increasing scrutiny following the outbreak of the worldwide crisis, especially with regard to their transparency or lack thereof. Ethical rating agencies in including or excluding companies from specific indices are often accused of not providing sufficient data. It may even occur that a company may be present in one index and absent in another, a discrepancy that highlights the often glaring differences between the evaluation models that are applied at an international level. Take the ESG model – which forms the basis of most ethical ratings – it is not considered sufficiently reliable or scientific inasmuch as it is exposed to "excessive subjectivity".
With a view to tackling this issue, the **Global Initiative for Sustainability Ratings** (GISR) was launched in 2011 with the aim of creating a world-class corporate sustainability ratings standard.
Notwithstanding the criticism, it is widely accepted that ESG assessment, combined with financial analyses, continues to offer investors additional information on the individual company's strengths, highlighting above all the non-financial risks that may occur.
Generali has been included in the following families of indices: **ASPI Eurozone**, **ESI**, **FTSE-4Good**, **MSCI ESG** and **STOXX Sustainability**. The Group's ESG ratings have improved significantly over the past years, allowing it to enter several top indices such as FTSE4Good Supersector Leaders, FTSE ECPI Italia SRI, ESI (Ethibel Sustainability Index) Excellence Global and Euro STOXX ESG Leaders.
As for its environmental performance in the area of climate change mitigation, Generali received in 2012 from the Carbon Disclosure Project a score of 80/100, up 12-points from the previous year. Generali's score is 5-point short of the excellence threshold of 85/100.

ferent names and may be referred as **code of conduct** or **charter of values** and constitutes an instrument to ensure conduct, on the part of the company itself and of stakeholders, that is in line with corporate values, and to pursue them in case of non-compliance.

To gain stakeholder confidence, enterprises must lead a responsible conduct, respect the laws, comply with the rules and regulations that have been established on a voluntary basis while committing representatives and stakeholders to apply such rules and regulations.

To achieve this, companies are required to implement a policy of **stakeholder engagement** through a number of instruments (meetings, focus groups, round tables, surveys, questionnaires, etc.) that would allow them to establish a dialogue with their stakeholders. However, this kind of engagement must go beyond the stage of mere contact-making but develop into a fully-fledged interactive process involving corporate strategy and business where companies must show willingness to integrate stakeholder expectations into their strategic policies through concrete action.

This kind of engagement would allow companies to tackle the risks they may incur. It thus becomes feasible through dialogue to manage, share and justify options, decisions and choices that are made besides creating the conditions to confront the risks that may arise.

In this way an enterprise will be able to create **shared value** and to sharpen its competitive edge and generate benefits for itself and the society and environment of reference.

Generali Group

In its long history, the Generali Group has founded its success not only on the excellence of its client-oriented products and services but also on the consistent care it has shown in responding to the expectations of both its staff and the

community of reference, for which it has acted, and continues to act, as a benchmark. Consequently, Generali's continued involvement with society couldn't neglect the theme of corporate social responsibility. Over the past decade, the Group has taken significant action to formalise and provide impulse to the process aimed at strengthening CSR, a commitment that has since been broadened to include environmental stewardship.
Within the framework of stakeholder relations, all those who operate for the Group must align themselves to the principles of transparency and appropriateness as outlined in the Code of Conduct.
In undertaking its business activity, the Generali Group is committed to promoting the culture of sustainability and to stimulating quality economic and social growth.

Generali's sustainability strategy focuses on the following priorities:

- **to pursue sustainable growth** in time through business-oriented action that can ensure satisfactory long-term financial performance;
- **to strengthen human resources** by improving skills and competencies within the Group, while acknowledging the contribution of individual talent to the success of the organisation as a whole;
- **to improve the conditions** of the **community** of reference by strengthening its role as a corporate citizen, proactively supporting institutions, entities and associations involved in promoting initiatives in society, culture, environment and sports;
- to take action **to encourage the inclusion** of the disadvantaged segments of the population in emerging countries by spreading microinsurance initia-

tives with a view to putting at the disposal of the weaker segments of society the Group's insurance capabilities;

- **to safeguard the environment** by mitigating direct and indirect environmental impact through the implementation of measures aimed at reducing the consumption of energy, paper, water and the emission of pollutants, and the definition of policies in the areas of procurement, products and investments that can stimulate eco-compatible approach in the suppliers, clients and businesses to which activities are outsourced.

The basic tenets of Generali's CSR policies are the **respect** for and the implementation of **human rights** in all spheres of activity and influence, and the **protection of the environment** through action aimed at developing and spreading green practices.

Marina Donati, CSR chief, comments: "*I believe that in certain milieus there continues to persist a rather sceptical attitude concerning CSR, considered to be marginal, somewhat irrelevant, if not altogether in contrast with company performance. It is only when the full potential of CSR as an integral part of corporate strategy and decision making is fully grasped that sustainability can be turned into a value accretion/creation driver for business as well as society as a whole. And this is exactly where Generali is committed to achieving through an increasingly more organised and targeted action that is progressively bearing fruit.*"

Marta Zanetti
Corporate Social Responsibility