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**How Can Corporate Social Responsibility
Be Assessed?**

Přemysl Průša

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How Can Corporate Social Responsibility Be Assessed?

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Summary:

The corporate social responsibility covers three areas – the environmental area, the social area and the economic area. Socially responsible companies may have advantages due to bigger attractiveness of their product for customers as well as due to bigger attractiveness of their shares for the investors. The most known indices that track the performance of socially responsible companies are the Dow Jones Sustainability Index, the FTSE4Good Index, the Ethibel Sustainability Index and the Natur Aktien Index. All of them proved to be capable of assessment the companies in terms of CSR. Still there is to be some effort made in order to make their methodologies more transparent and also to make the inclusion into the indices more open to small and middle size companies.

Keywords: corporate social responsibility, assessment criteria

Jak může být společenská odpovědnost podniků hodnocena?

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Abstrakt:

This paper deals with problems of the corporate social responsibility. It aims at explanation of the notion corporate social responsibility together with specification of advantages, which the socially responsible behaviour can bring to companies. Further the aspects of possible assessment if companies do behave socially responsibly are discussed. This assessment is a part of the so called sustainability/social indices. Amongst the most important once the Dow Jones Sustainability Index, the FTSE4Good Index, the Ethibel Sustainability Index and the Natur Aktien Index are to be mentioned. Finally these indices are compared in this paper in terms of the CSR assessment criteria they use, in order to find out their main advantages and disadvantages.

Klíčová slova: společenská odpovědnost podniků, kritéria hodnocení

JEL: M14, C01

Reviewer: Elizabeth Gump, MA, PhD. candidate, University of Chicago;
Ing. Jiří Mikeš

Content

Introduction	5
1. The concept of the Corporate social responsibility	5
2. The advantages of being a socially responsible company	6
2.1 CSR and brand differentiation	7
2.2 Greater attractivity for investors	7
3. Measuring the corporate social responsibility.....	8
3.1 Dow Jones Sustainability Indexes	9
3.2 FTSE4Good Index	11
3.3 Ethibel Sustainability Index	13
3.4 Natur-Aktien-Index.....	15
Conclusion.....	20
References	21

Introduction

The concept of corporate social responsibility has been developing since the 70's of the last century. However, there is still not a clear definition invented for it. This is given mainly by the fact, that corporate social responsibility does not have any limitations and is based on optionality.

Socially responsible companies behave in the way to respect the needs of their inner and outer surroundings, in order to contribute to the sustainable development and completely increase the level of social welfare.

The concept of CSR requires a change in thinking of the companies – from the “profit only” approach to the “people, planet, profit” approach. That means acting with respect to the so called triple-bottom-line, when the companies concentrate not only on the economic growth, but also on the environmental and social aspects of their activities. The main reason for this behavior is that companies do not work isolated from the world – they are a part of it. Moreover, the evaluation of a company working by its surroundings influences directly the successfulness of a company.

The aim of this paper is to describe and evaluate the actual concept of corporate social responsibility and find out the right definition for it. Further, I will try to understand why companies are trying to behave socially responsibly and what is or what should be the advantage of such a behavior. Last but not least I will explain, summarize and evaluate some widely used concepts of measuring corporate social responsibility.

1. The concept of the Corporate social responsibility

From many definitions that are being used for the CSR concept following are the most important:

CSR is a voluntary integration of social and environmental perspectives into the daily company's operations and interactions with company's stakeholders (European union, The green book 2001);

CSR is the business philosophy, which is in compliance or goes well beyond the ethical, legal, commercial and social expectations (Non governmental organization Business for social responsibility);

CSR is a continuous commitment of companies to behave ethically and to contribute to the economic growth and to struggle to increase the life quality of the employees and their families as well as the local community and the entire society at the same time (World business council for Sustainable development 1997).

The above definitions are rather vague, which gives us more space for broader use. In fact the CSR is based on three pillars (determined by the triple-bottom-line) – economic pillar, social pillar and environmental pillar.

Tab. 1: Three pillars of CSR

The economic pillar	The social pillar	The environmental pillar
the codex of business behavior	company's philanthropy	ecological production, products and services
transparency	dialogue with stakeholders	ecological company policy
corporate governance	health and security of employees	diminishing the impact on the environment
corruption	human capital development	natural resources protection
shareholders dialogue	working standards	ecological production, products and services
behavior towards customers	work-life balance of employees	ecological company policy
behavior towards suppliers	equality for men and women	diminishing the impact on the environment
behavior towards investors	diversity on the workplace	natural resources protection
intellectual property protection	retraining of laid off workers	
	human rights	

Source: Trnková (2004).

2. The advantages of being a socially responsible company

The acting in compliance with the CSR principles shall bring the company many advantages, which usually cannot be determined financially, therefore we call them intangible assets like for example

- more opportunities for innovations;
- greater transparency for the company surroundings;
- long term sustainability;
- increased loyalty and productivity of the employees;
- better company reputation, the possibility of company brand differentiation;
- greater attractiveness for investors.

2.1 CSR and brand differentiation

Brand differentiation is very important in today's world and it is very difficult to find out any feature that could serve as a differentiating factor for brands and their products, especially when all the products in each and every product category show the very same characteristics. Thus it is recommendable that companies act socially responsibly and *communicate* their social activities to the broad public efficiently. Then their social activities may become the part of the brands and are able to differentiate their brand from their competitors' brands.

2.2 Greater attractivity for investors

In the 70's of the last century there were established so called SEE funds (Social, ethical and environmental investment funds). These funds only embraced companies, which behaved according to the CSR standards, for example there were no tobacco or alcohol producing companies listed within these funds. Such funds do exist currently as well and are becoming more popular than ever, the attractivity of the SEE investment funds is given namely by:

bigger attractivity of the products produced by socially responsible companies to the consumers (thus these companies provide their investors with higher profits than the other companies that do not behave in accordance with the CSR standards = the above mentioned differentiating factor);

the knowledge of SEE funds managers, who usually know "their funds" very well and are able to predict the future development of the share prices of companies listed in the SEE funds with a high level of probability. The knowledge of the SEE funds managers are usually acquired by the thorough and continuous evaluating the companies listed in the SEE funds in terms of their capability of meeting the CSR standards.

The SEE fund managers choose "their companies" according to the CSR standards. The problem is that there are many SEE funds and there is no common methodology for evaluating the companies in terms of meeting the CSR standards. Moreover, even the CSR standards are not unified. Currently there are several independent organizations, which specialize in setting their own CSR standards as well as the evaluation methodology. Their services are further used by the SEE funds. Generally the above described investing in the social responsible companies is called SOCIALLY RESPONSIBLE INVESTMENT (SRI). More than 69% of managers and analysts estimate, that the volume of SRI will keep on growing in the following two years (Survey of European fund managers 2003).

3. Measuring the Corporate social responsibility

In connection with investments into the SEE funds several organizations have developed their own indices for the purposes of measuring the performance of the companies embraced in the SEE funds, thus companies meeting the SEE standards. These indices are constructed as base price indices (tracking the development of share prices of companies) or turnover indices (tracking the turnover of companies), namely we can mention following indices (source Sustainable Business Institute) (Stuchlík 2007: 72-73):

Dow Jones Sustainability Indexes developed by Dow Jones company, Switzerland;

FTSE4Good by FTSE Group, United Kingdom;

Natur Aktien Index by Securvita, Germany;

Ethibel Sustainability Index by Ethibel, Belgium.

Each of the above organizations uses its own set of criteria, which are used for assessment of companies as regards their eligibility to become a part of the index.

My goal in the subsequent text is a comparison of CSR evaluation approach of the above mentioned organizations, namely Dow Jones, FTSE Group, Securvita, Ethibel and Calvert according to following aspects:

what criteria they use for CSR evaluation;

what weights are assigned to the respective criteria;

where do the organizations source relevant and truthful information for company assessment;

what are the advantages and disadvantages of such approach.

3.1 Dow Jones Sustainability Indexes (DJSI)

The DJSI were established to track the performance of companies that lead the field in terms of corporate sustainability. The DJSI World consists of a composite index and five narrower, subset indexes excluding companies that generate revenue from alcohol, tobacco, gambling, armaments and firearms or all of these industries. This set of indexes was first published on September 8, 1999 (SAM-Group 2007: 5) (*The DJSI World tracks the performance of the top 10% of the companies in the Dow Jones Global Index that lead the field in terms of corporate sustainability*).

DJSI assessment criteria

These are divided into two main groups. The *general sustainability criteria* are applicable to all industries and account for approximately fifty percent of the assessment, whereas the *industry specific criteria* are related to a particular industry and have a weight of approximately fifty percent of the assessment.

Tab.2 DJSI assessment criteria

Dimension	Criteria	Weights (%)	
Economic	Corporate Governance	6,0	17,5
	Risk and Crisis Management	6,0	
	Corruption and Bribery	5,5	
Environment	Environmental Performance	7,0	10,0
	Environmental Reporting	3,0	
Social	Human Capital Development	5,5	22,5
	Talent Attraction and Retention	5,5	
	Labor Practice	5,0	
	Corporate Citizenship/ Philantropy	3,5	
	Social Reporting	3,0	

Source: SAM-Group (2007).

All questions related to each criteria assessed receive a score. Each question has a predetermined weight for the answer, the question, and for the theme and class within the question. The total score for the question is the combination of these weights (SAM-Group 2007: 13).

It is obvious that the above criteria cover all the dimensions of the CSR. However, they are not well balanced in terms of their weightings. For example the Social criteria as well as the Economic criteria account for 22,5% respectively 17,5% in the total assessment, whereas the Environmental criteria only account for 10% in the assessment. As the environmental aspects are becoming much more important currently, the Environmental criteria should receive higher weighting score, thus this fact is to be mentioned as an disadvantage of the DJSI assessment criteria. On the contrary, there is still 50% of the weightings left for the use of industry specific criteria, where the particular weights of each criterion can be adjusted according to the particular industry – in that case the importance of each criterion can be either strengthened or diminished according to the character of a particular industry.

DJSI Information sources

There are *special questionnaires* designed specially for each industry sector handed out in the assessed companies, these are signed by a senior company representative. Further *company documentation* is used (sustainability reports, environmental reports, health and safety reports, social reports, internal documentation, brochures, web sites ...). Sustainability analysts also *review media, press releases, articles and stakeholder commentary* written about a company over the past twelve months. When needed, the analysts *directly contact* companies (SAM-Group 2007: 12).

Advantages of DJSI assessment approach

- wide range of criteria covering all the dimensions of CSR;
- variability and adaptability of industry specific criteria;
- various information sources about company behavior;
- independent assessment;
- DJSI committee assess all companies with tradeable shares.

Disadvantages of DJSI assessment approach

- only stock companies are assessed;
- environmental criteria have small weight;
- the calculation of CSR score is not transparent;
- the industry specific criteria weights are not transparent;
- lack of verification of information sources?

3.2 FTSE4Good Index

FTSE is an independent company owned by the Financial Times and the London Stock Exchange. The aim is the creation and management of indices and associated data services. The FTSE4Good Indices consist of FTSE4Good UK 50 Index, FTSE4Good Europe 50 Index, FTSE4Good US Index and FTSE4Good Global 100 Index, these indices are tradable indices. Each embraces always the best 50 (respectively) 100 best performing companies in terms of social responsibility. There is also a set of „benchmark indices“, that again consists of FTSE4Good UK Index, Europe Index, US Index and Global index. The company has collaborative arrangements with many exchanges worldwide in Athens, Cyprus, Johannesburg, London, Madrid, Singapore and Taiwan, with the Euronext, NASDAQ and Nordic exchanges, as well as with companies such as APCIMS and EIRIS in the UK, Hang Seng in Hong Kong, Institutional Shareholder Services (ISS) in the US and Xinhua Finance of China (FTSE 2004: 7).

FTSE4Good Index assessment criteria

(FTSE 2004: 6).

First of all, there are companies of following branches excluded:

- tobacco producers;
- companies providing strategic parts or services for or manufacturing whole nuclear weapon systems;
- manufacturers of whole weapons système;
- owners or operators of nuclear power stations and those mining or producing uranium.

After that, the selection criteria are applied:

- working towards environmental sustainability;
- upholding and supporting universal human rights;
- positive relations with stakeholders.

FTSE stresses out mainly the importance of human rights, where it uses the principles of the ILO Core Convention (that consists of four areas - equality/discrimination, forced labour, child labour, worker representation). Further there are the health and safety conditions examined as well as respecting working hours and minimum wages.

FTSE information sources

FTSE cooperates with a special research company Ethical Investment Research Service (EIRiS), which is an independent provider of research into the social, environmental and ethical performance of companies (FTSE 2004: 5). The data for the assessment are collected mainly from *companies annual reports, research of company websites, written questionnaires* or in case of necessity from *telephone questionnaires* in relevant languages. In addition, *factsheets detailing the information* held by EIRiS are distributed to companies on a regular basis for updating and review (FTSE 2004: 5).

FTSE assessment advantages

- high importance of human rights criteria;
- various and independent sources of information used for the assessment;
- independent assessment.

FTSE4Good Index assessment disadvantages

- criteria weights are not transparent;
- social responsibility score calculation model is not transparent;
- the importance of environmental criteria is not clear enough;
- alcohol producing companies are not excluded as well as companies dealing with gambling;
- on the contrary nuclear energy providers are excluded, even if according to some experts opinion nuclear energy is likely to be environmentally friendly.

3.3 Ethibel Sustainability Index

The Ethibel Sustainability Indices track the performance of world's leading companies in terms of sustainability. The Indices are counted by Standard & Poor, but the selection of the companies remains the exclusive responsibility of Forum ETHIBEL, which is a non-for-profit organization seated in Belgium and offering sustainable investment advice and service since 1992.

The set of Ethibel Indices was firstly published on June 27, 2002 and consists of four indices: ESI Pioneer Global, ESI Pioneer Europe, ESI Excellence Global and ESI Excellence Europe (+ ESI Excellence Europe Institutional). Each index is calculated as price and total return index in both USD and EUR, the base value for all indices is 1000 on December 31, 1997 (Forum ETHIBEL 2007: 4).

It is very important that Ethibel has contracted an independent research company Vigeo, which deals with measuring companies' performance in the field of sustainable development and social responsibility and provides Ethibel with the results of its analyses. However, Ethibel is the only organization to decide if a company will become a part of the ESI or not.

Ethibel assessment criteria

The Ethibel's concept for CSR evaluations consists of two subconcepts: „sustainable development“ and „stakeholder involvement“, which stresses the importance of the permanent dialogue with all stakeholders at all stages of the research and evaluation process. There are always positive criteria applied on all the fields of CSR, which are the *environment*, the *internal social policy*, the *economic policy* and the *external social policy* (Forum ETHIBEL 2007: 6).

In case of *Internal social policy* researchers analyse the quality of the working environment, the employees' expectations and the way they are met by the management, including human resources policies and management, working conditions, the terms of employment, etc.

In case of *Environmental policy* esp. the company's environmental strategy and management, the environmental impacts of production and products are analysed.

The analysis of *External social policy* covers company's activities on society, human rights, communication with stakeholders, social investments and relations with developing countries.

In the field of *Economic policy* researchers concentrate on the company's economic and innovative potential and how it manages internal and external economic risks including analyses of the relationships with clients, shareholders, suppliers and authorities.

The researchers also reflect any possible *controversial activities* that might be subject to public controversy such as nuclear energy programs, production and trade in alcohol, tobacco, arms, violation of animal welfare, the gambling and pornography, the genetic modification of organisms and the development of pesticides.

This analysis is further completed by assessment of company's performance on following themes: community involvement, corporate governance, business behaviour, environment, human resources and human rights. These themes are analysed from the stakeholders' point of view, which offers a more balanced picture of a company.

Each criterion is evaluated by a special rating scale developed by the Vigeo research organization: *Pioneer* (++) , *Advanced* (+) , *Average* (=) , *Below average* (-) , *Unconcerned* (--) (Forum ETHIBEL 2007: 10).

Based on the research, the reviewed companies are classified according to the above mentioned criteria and the results are submitted to the *Ethibel Register Committee*, which brings together academics in the field of CSR, environmentalists, human rights specialists, etc. (thus an independent body), who evaluate the results of the research, set up the final profile of a company and advise the *Forum Ethibel Board of Directors* on the company's inclusion in the *Ethibel Investment Registers* (Pioneer or Excellence). The ESI is reviewed every six months.

Ethibel information sources

Company information is gathered both from the *materials issued by a company* such as annual reports, environmental reports or websites and from a *dialogue with the company's management* (company visits, telephone interview, emails). Further information is collected from the company's surroundings such as *media reports, information on the internet*, etc. Also the *stakeholder dialogue* is a crucial source of information (Forum ETHIBEL 2007: 9).

In this regard it is very difficult to find the right and to the company behaviour most *relevant groups of stakeholders*, such as trade unions, environmental groups or consumer groups. This is to be analysed in each company case separately. Moreover, the stakeholders must have specific knowledge to evaluate company's behaviour in a critical way.

Ethibel assessment advantages

- Assessment of all issues related to CSR (environmental, social and economic policy);

- covering all the activities of the company including peripheral activities, activities outside the home country as well as activities of suppliers and subcontractors;

- covering both the actual and future situation, assessment reviews every six months;

- cooperation with scientific institutions, trade unions, NGOs, etc.;

independent evaluation and research – the research is carried out by Vigeo research company and the final evaluation is done by Forum Ethibel.

Ethibel assessment disadvantages

The assessment methodology does not mention the more specific criteria in each of the particular field of CSR;

the assessment methodology also does not mention weights to match the kriteria;

there are certain limitations to the companies willing to become the part of ESI – the company must be a stock company, only the most liquid, sector representative stocks in each region/ country that fulfill the criteria of Ethibel methodology are selected. As a result, it is possible that not all the sectors within each region/ country are represented, further stocks with limited float may be included if they are actively traded, suitably liquid and the investable market cap is sufficiently large, (Forum ETHIBEL 2007: 14-15);

the financial and operating shape of a company is analysed by Standard & Poor and Ethibel has to base its further assessment on the fundamental analysis of Standard & Poor.

3.4 Natur-Aktien-Index

The Natur-Aktien-Index (NAI) tracks the performance development of 30 international companies, which have been chosen by the NAI committee as ecological pioneers according to NAI criteria.

There are companies from various countries and branches in the NAI, 75% of them show an annual turnover of more than 100mil. USD, 25% of the companies deal with ecologically innovative products development and their annual turnover is lower than 100mil. USD, these are called pioneers. The idea is that the NAI should be comparable to the established international stock indices (NAI).

However, sometimes companies must be taken away from the NAI, especially in the event of not fulfillment of the NAI criteria, if their shares are not traded anymore or there are new companies proving more innovative approach to the environment. This is to be decided by the NAI committee, whose competence is also decision taking on the criteria changes, if necessary.

NAI criteria

In fact the criteria are positive and name all possibilities how a company can contribute to the development of sustainable economy:

the company offers products or services, which are able to contribute to the solution of ecological problems and sustainable development, for example agricultural products produced without the use of pesticides, development of cars with low fuel consumption, products that can be used for diminishing poverty, development of natural medicaments, etc.;

the company is a branch leader in product development, innovation, for example it manages to extend the product life cycle, to increase the security of product utilization, to improve to product recycling, etc.;

the company is a branch leader in terms of technical innovation of the production and sales process, for example it succeeds in lowering the consumption of raw materials during production, it manages to lower energy consumption and emissions during production, etc.;

the company is a branch leader in terms of social aspects of the production and sales process, for example the company is responsible for further workers education, it ensures special working conditions, the workers take part in company's decision taking process, special rights for women, etc.

Companies featuring following characteristics must not become a part of the NAI (NAI):

nuclear energy production or nuclear energy supplies;

armament production and distribution;

women or ethnical discrimination;

limiting trade unions activities;

children's labour;

activities in countries which are not recommended to be active in by respected protest movements;

experiments on animals, usage or production of genetically modified plants, animals or bacterias;

productions of environmentally harmful products or products harmful to health;

impossibility to present the actual information about emissions, water consumption, raw material consumption, etc.;

legal regulation breach.

NAI assessment advantages

positive approach is combined with negative approach – the company may fulfill only some of the criteria, on the other hand there are activities named that are strictly prohibited;

covering all the activities of a company;

there are all dimension of CSR covered (environmental, social, economic);

flexibility in terms of changes of the index composition.

NAI assessment disadvantages

- not many companies are embraced in the index (30 companies);
- only stock companies are embraced in the index;
- the positive criteria specification may result in a situation, when a company does not perform well in other dimensions of CSR;
- there are no criteria weights;
- the environmental criteria are too dominant and the economic criteria too diminished;
- the assessment is only done by the NAI committee, there is no independent body to do the research and assessment of companies.

Tab. 3: The advantages and disadvantages of the described CSR indices

CSR Index	Advantages	Disadvantages
DJSI	<p>wide range of criteria covering all the dimensions of CSR</p> <p>variability and adaptability of industry specific criteria</p> <p>various information sources about company behavior</p> <p>independent assessment</p> <p>DJSI committee assess all companies with tradeable shares</p>	<p>only stock companies are assessed</p> <p>environmental criteria have small weight</p> <p>the calculation of CSR score is not transparent</p> <p>the industry specific criteria weights are not transparent</p>
FTSE4Good	<p>high importance of human rights criteria</p> <p>various and independent sources of information used for the assessment,</p> <p>independent assessment</p>	<p>criteria weights are not transparent</p> <p>social responsibility score calculation model is not transparent</p> <p>the importance of environmental criteria is not clear enough</p> <p>alcohol producing companies are not excluded as well as companies dealing with gambling</p>
ESI	<p>assessment of all issues related to CSR</p> <p>covering all the activities of the company including</p>	<p>the assessment methodology does not mention weights to match the criteria</p>

	<p>peripheral activities, etc. covering both the actual and future situation</p> <p>cooperation with scientific institutions, trade unions, NGOs, etc.</p> <p>independent evaluation and research</p>	<p>there are certain limitations to the companies willing to become the part of ESI – the company must be a stock company, only the most liquid, sector representative stocks in each region/ country are assessed</p>
NAI	<p>positive approach is combined with negative approach</p> <p>covering all the activities of a company</p> <p>there are all dimension of CSR covered (environmental, social, economic)</p> <p>flexibility in terms of changes of the index composition</p>	<p>not many companies are embraced in the index (30 companies)</p> <p>only stock companies are embraced in the index</p> <p>positive criteria specification</p> <p>there are no criteria weights</p> <p>the environmental criteria are too dominant</p> <p>the assessment is only done by the NAI committee</p>

Conclusion

Corporate social responsibility (CSR) is a crucial element of companies' activities in today's world. The companies need to behave socially responsibly, because the society requires such behavior. Therefore I tried to explain the notion of corporate social responsibility in the first part of the paper, where I mention several definitions, which can all be summarised in the following way: Companies should behave in compliance with their surroundings, that means in compliance with the society and the environment they live in, also they should perform well in the economic area.

Companies performing well in the social responsibility area are able to achieve several advantages, such as their products are more attractive for socially responsible customers (in case companies manage to communicate their approach to CSR properly) as well as they (their shares) are much more

attractive for socially responsible investors. Thus socially responsible companies can perform better in terms of turnover, profitability and share value than companies that are not publicly known as socially responsible.

There are several organizations which deal with assessment of companies in terms of CSR. These organizations further construct indices that track the performance (share value, turnover development) of socially responsible companies. These organizations use their own methodology for company assessment. In my paper I concentrate on assessment methodology comparison of the most important indices such as: Dow Jones Sustainability Index from Switzerland, FTSE4Good Index from the UK, Ethibel Index from Belgium and Natur-Aktien-Index from Germany.

All of them proved to be capable of assessment the companies as for CSR.

However, I have identified several disadvantages at each and every index, namely all of them assess only stock companies, which does not leave space enough for other, especially small and middle companies, that can be very successful in the area of CSR. Some indices prefer one set of criteria to the other (for example environmental criteria are more important than social criteria). Except of DJSI the weights to match the criteria are not transparent and in some cases such as in case of the NAI, there is no independent body which is able to provide a research for relevant company information in the area of CSR.

Anyway, the used assessment methodology of the above indices is widely accepted by both general and expert public. Still there is some effort to be made to make the methodologies more transparent and also to make the inclusion into the indices more open to small and middle size companies.

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