

Impact of Ethics, CSR, Corporate Governance, Sustainability on Reputation

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Our Thesis Today: Ethics, Sustainability Impacts Business Results



What is Ethics?

- Ethics: codes of ethics, scandals
- Sustainability: HR, good management
- Corporate Social Responsibility:
community programs
- Corporate Governance: management
structures, regulations
- Transparency: Reporting, openness



What Factors Contribute to Corporate Reputation?

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According to Consumers	RANK	According to Business Influentials
Customer focus	1	Customer focus
Quality products/services	2	Quality products/services
Believability	3	Believability
Attracts/keeps talent	4	Attracts/keeps talent
Responds to change	5	Responds to change
Environmental concern	6	Good financial performer
Responsive to community	7	Innovative
Innovative	8	Industry leader
Good financial performer	9	Clear vision
Clear vision	10	Responsive to community

Source: Building Corporate Reputation To Meet Industry Goals, Andrew Cober, JPT Online, September 2004



I. Consumers: Ethical Impact on Reputation



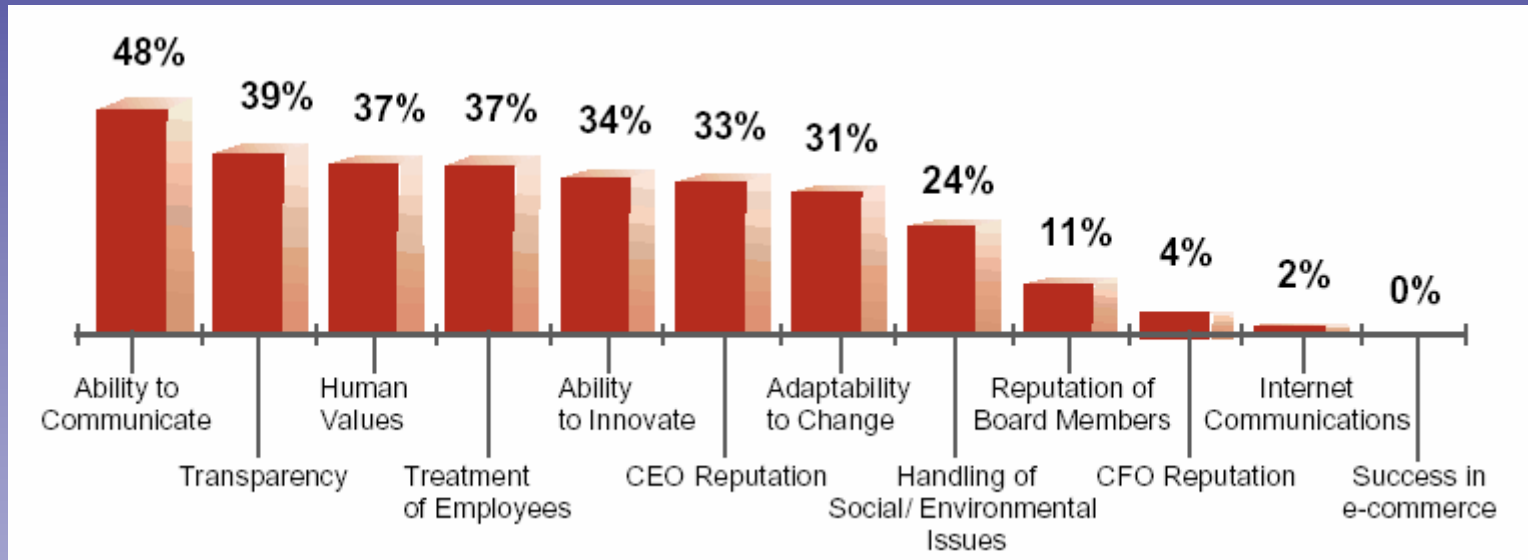
Public Values Ethics Most

- Study in 26 countries involving 25.000 people: 60% cite labor practices, business ethics, responsibility to society, environmental impact influence their views of companies more than brand reputation and financials.

Source: www.mori.co.uk



Customer Perceptions & Corp. Ethical Behavior Impact Reputation



Source: 2003 Corporate Reputation Watch Survey – Hill & Knowlton and Korn Ferry International



Industries Serving Customers

RANK ORDER		Good Job	Bad Job	Not Sure/Refused
		%	%	%
1	Supermarkets	87	8	5
2	Packaged food companies	77	15	9
3	Airlines	74	13	12
4	Computer hardware companies	73	9	18
5	Banks	73	21	6
6	Computer software companies	72	10	19
7	Hospitals	70	21	9
8	Car manufacturers	68	24	8
9	Telephone companies	56	39	4
10	Life insurance companies	55	28	18
11	Pharmaceutical and drug companies	44	48	8
12	Health insurance companies	36	56	9
13	Oil companies	32	57	11
14	Managed care companies such as HMOs	30	53	18
15	Tobacco companies	30	60	10

Source: Harris Poll in U.S. 2004



Ethics & Consumer Behavior

- 50% have NOT bought stock for ethical reasons
- 70% have not bought products

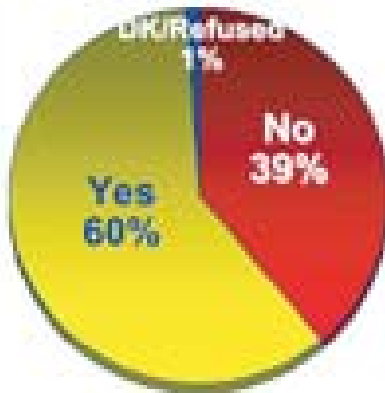
Source: LRN, January 2006



Impact of Corporate Citizenship on Buying Behavior

Corporate Citizenship

Have you ever decided not to buy a brand because the company was not a good corporate citizen?



How much does corporate citizenship influence your overall image of a company?

% Reporting "A lot of influence"

General Public – 33%

Fortune 1,000 Executives – 34%

Congressional Staff – 37%

Source: Building Corporate Reputation To Meet Industry Goals, Andrew Cober, JPT Online, September 2004

CSR: Most Effective Measures

Corporate Citizenship

What increases a company's standing as a corporate citizen?

Action	% Responding "a lot"
Treating employees well	79%
Providing products/funds for education	75%
Providing computers for schools	68%
Supporting anticrime and antidrug programs	66%
Supporting hospitals/health facilities	65%
Funding cancer research	63%
Supporting homeless charities	60%
Participating in environmental programs	57%
Contributing to the arts	25%

Building Measurable Value

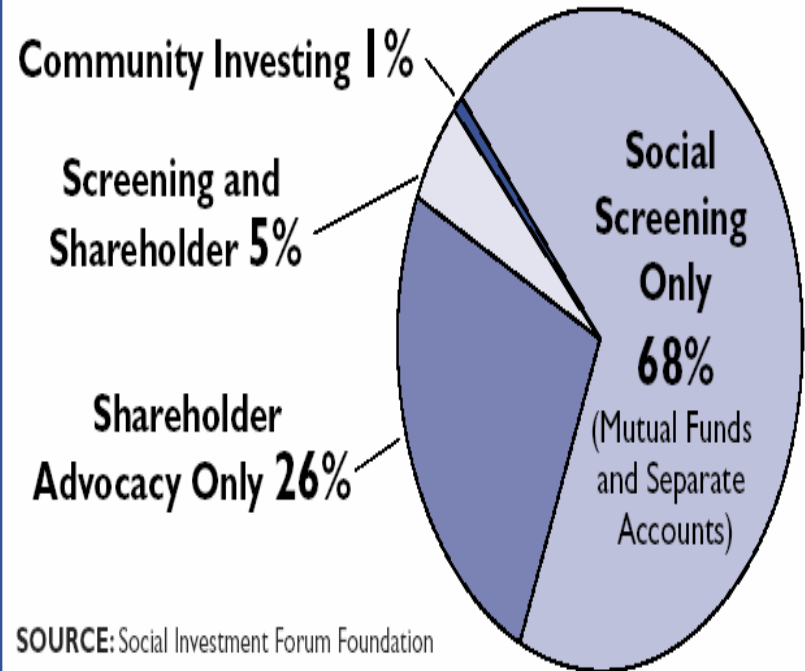
Source: Building Corporate Reputation To Meet Industry Goals, Andrew Cober, JPT Online, September 2004

Investments in Socially Responsible Companies

- 36% rise in socially screened portfolios between 1999 and 2001

FIGURE 1.1

Social Responsible Investing in the United States • \$2.3 trillion in 2005



SOURCE: Social Investment Forum Foundation

SRI and Investor Activism

- 251 resolutions filed on social issues and money controlled by shareholders involved in engagement totaled \$905 billion in 2001 in the USA.

Source: The Business Case for Corporate Citizenship, Arthur D. Little, London, 2001



II. Company Executives: Ethical Impact on Reputation



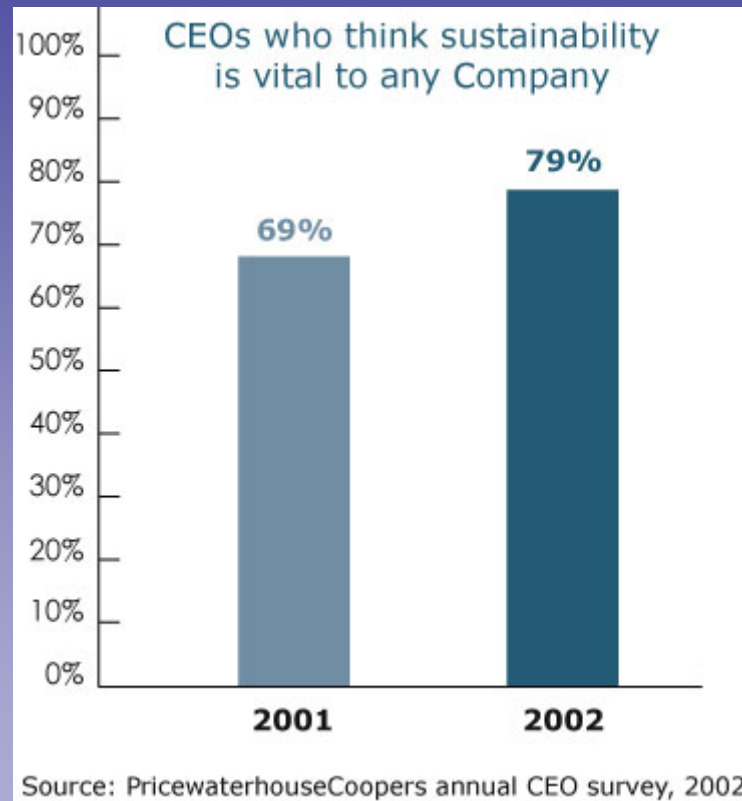
What Company Executives Think

- 94% of company executives believe the development of a Corporate Social Responsibility (CSR) strategy can deliver real business benefits.

Source: Ernst & Young survey, 2002



CEO's Think CSR is Vital



More About What Executives Think

- 71% of CEOs would sacrifice short-term profitability in exchange for long-term shareholder value when implementing a sustainability programme.

Source: Pricewaterhouse Coopers annual CEO survey, 2002



III. What Companies Do: Impact of Ethics on Reputation

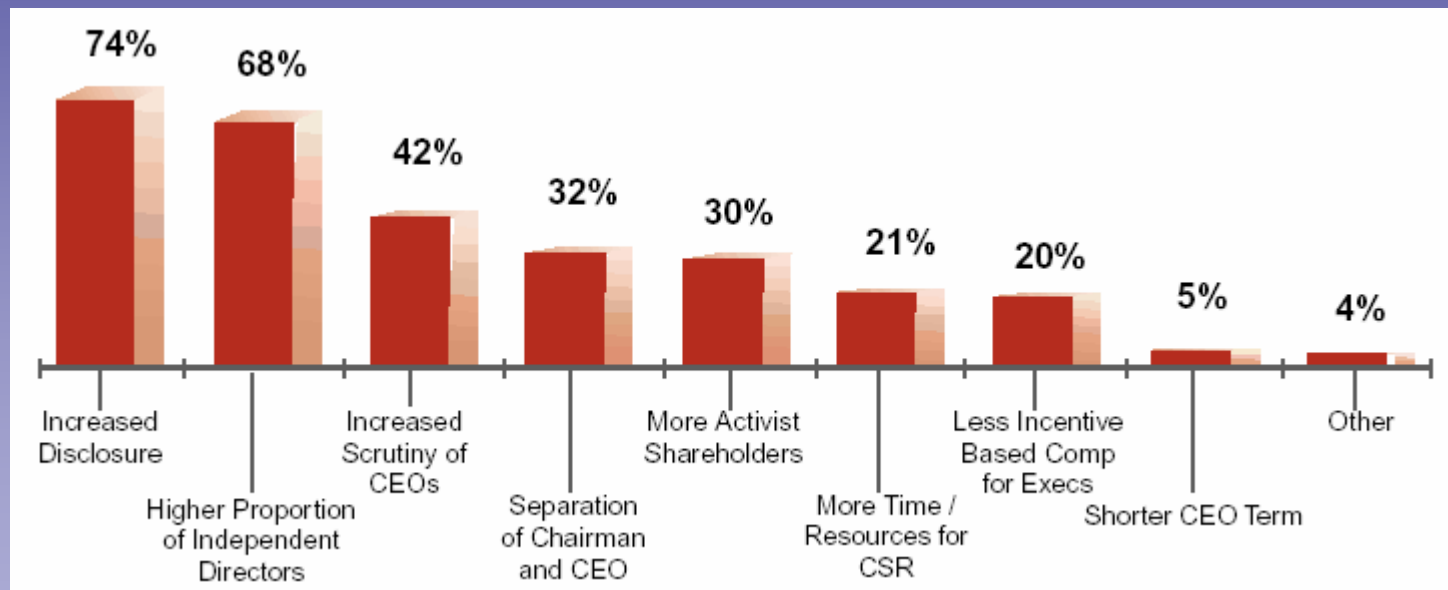


Ethics Help Finances

- Ethical companies: 18% higher profits (Source: Institute of Business Ethics, 2003)
- Stakeholder-oriented S&P companies: 43% better performance over 15 years (Schmidt, 2000).
- Stakeholder/ethically-oriented companies: 4x growth rate, 8x employment growth over companies with shareholder growth only view (Harvard University, 2000).

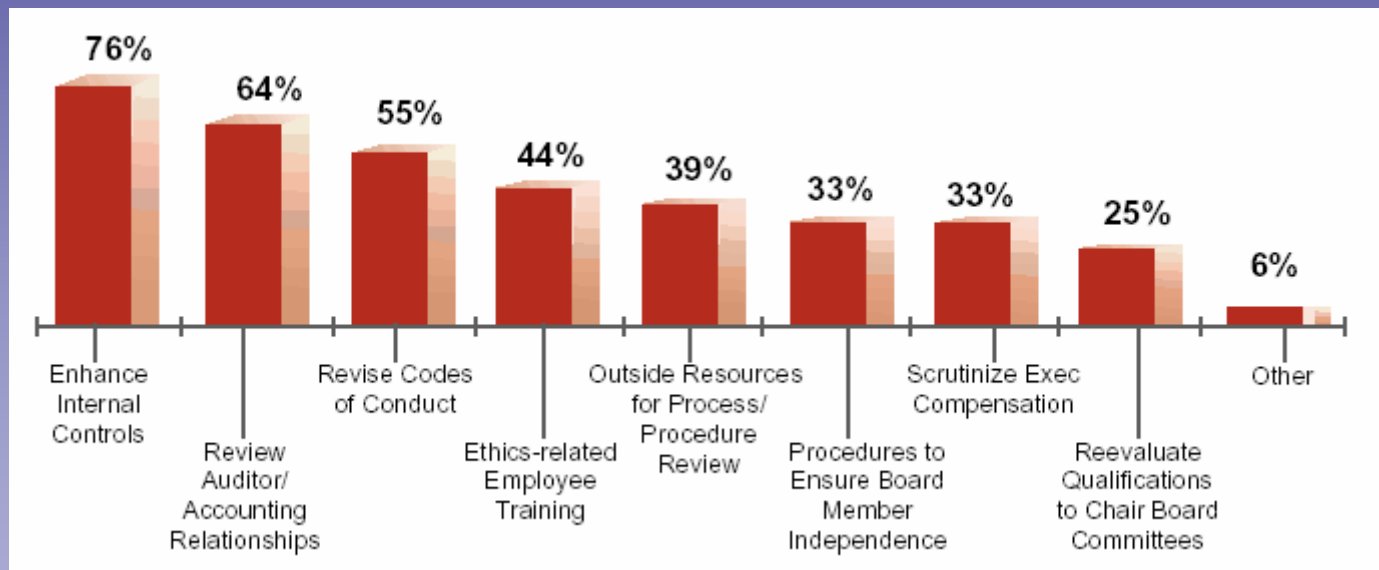


Impact of Corporate Governance on Reputation



Source: 2003 Corporate Reputation Watch Survey – Hill & Knowlton and Korn Ferry International

Impact of Corporate Governance on Reputation



Source: 2003 Corporate Reputation Watch Survey – Hill & Knowlton and Korn Ferry International

What Companies Do For Ethics and CSR

- ExxonMobil: \$2.5 billion on environment 2004
- Petrobras: \$38m/yr. for culture; \$300m in 3 years for social programs
- Itaú: R\$ 48m/yr. on internal training
- CPFL: Campaigns on safety in electricity
- ChevronTexaco: 243 text sections on H&S
- BP: 500 workshops on ethics in 2003



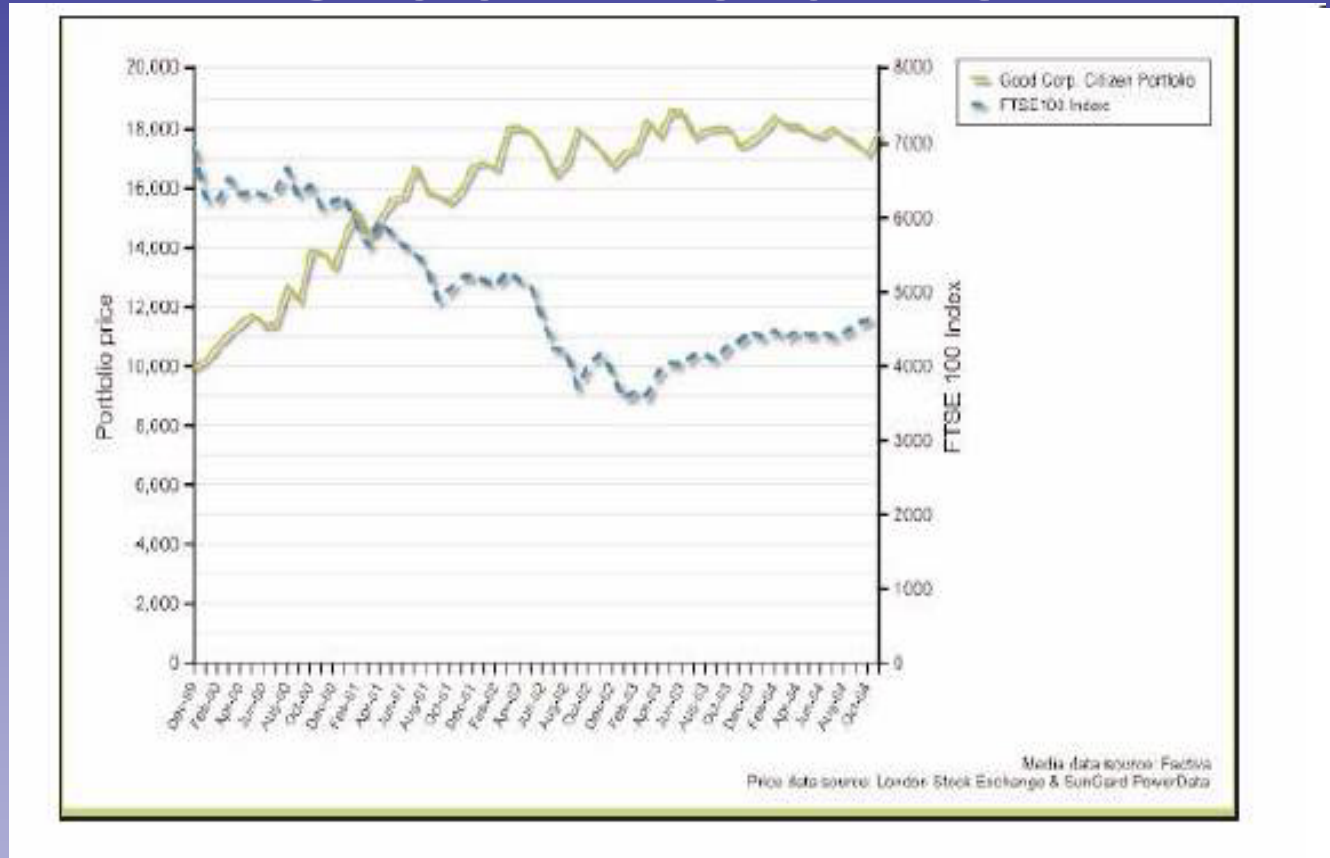
M&A's of Ethical Companies

- L'Oreal bought Body Shop (650 m Pounds)
- Cadbury Schweppes bought Green & Blacks (20m Pounds)
- British consumer ethical spending rose 15% in 2004 (normal spending rose only 3.7%)

Source: "High-street retailers follow Body Shop into ethical trade", The Sunday Times, 19 March 2006



Positive Impact of Ethics on Stock Returns



Source: www.factiva.com - 2005

IV. Let's Create the First Data on Brasil: The M&E/SR Survey



And Brazil? A First Survey

- The questionnaire: Which ethical measures do you plan for your company?
- Return to us by 26 May 2006
- We send you the results compared with a benchmark
- The ranking: Do you want to participate?



The Questionnaire: Examples of points

- Training for employees
- Annual social report
- ISO certification
- Good customer service
- Corporate governance policy
- Tripple bottom line reporting
- Board committees, such as audit

About M&E, SR Rating

- Management & Excellence SA is based in Madrid and is the leading research and rating company in ethics, sustainability specialized in Latin America. It is partnered with SR Rating (RJ, SP) and Grow Associates (SP).
- SR Rating is Brazil's largest and oldest credit rating agency.



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