



“ANNUAL REPORT ON ITALY”

THE ITALIAN STOCK MARKET
& CORPORATE SOCIAL RESPONSIBILITY

AEI Ratings: A Comparison Between the Bank Index, SP-MIB 40 and
Segmento Star

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The *Annual Report on Italy* is published by our Research Department and provides an overall view of the Rating Activities carried out by AEI Standard Ethics. As you know, the purpose of AEI Standard Ethics is to promote Corporate Social Responsibility (CSR) in line with the principles and values of the UN, OECD and the European Union.

This short study describes the results of the activities we carried out to rate 101 listed companies in Italy.

AEI Ratings are issued using international guidelines. Even when they have embraced Corporate Social Responsibility, companies do not have to follow these guidelines because they are free to choose different models for sustainable development.

The conclusions of this Report dwell upon the fact that the average Rating assigned to Italian companies is lower than hoped for. This highlights the original nature of the Italian economic system as opposed to the international model. This issue has already been noted and stressed by observers who are far more authoritative than AEI Standard Ethics.

Rightly or wrongly, our peninsula carries on along the same path. However, the constant weakening of its international position seriously jeopardizes that economic development that ought to be available to future generations.

The root causes of this weakness cannot possibly not have an explanation.

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Background

Introduction to CSR

The notion of corporate ethics or, better still, Corporate Social Responsibility (CSR) was recently developed by international institutions. It originated from the old type of ethical finance which goes back to the beginning of the XX century and is now called Sustainable Finance or Socially Responsible Investments (SRI).

From an institutional point of view, CSR was initially discussed by the **United Nations** and subsequently developed by the **Organization for Economic Cooperation and Development** (OECD) and the **European Union**. Some national governments have recently started to issue guidelines on CSR.

CSR is a voluntary commitment undertaken by a company to contribute to the improvement of the environment and society (Commission of the European Communities: Promoting a European Framework for Corporate Social Responsibility, 18.7.2001 – COM/2001 – 366, also known as Green Paper on CSR).

Today, the final definition of such commitment and the responsibilities it entails are established by the companies with different methods.

In the world of Corporate Social Responsibility or sustainable and responsible finance, there are many instances upon which the definition of the “ethical rules” to be followed depend and various formulas are being proposed:-

- In general terms – and it has to be pointed out that any simplification is obviously reductive and that there are many instances of contamination amongst the various models –the most widely adopted approach is the “subjective” one whereby the

company which is interested in taking on commitments towards the social sphere and the environment prepares an “ethical” document (usually a code or a charter) laying down the principles drawn up by the company itself or by its consultants.

These consultants, the various study centres, the auditing companies then work out the level of social responsibility and propose solutions on the basis of the guidelines provided by their customers. If such guidelines are not available, they suggest their own.

- A second approach is the identification of ethical principles through negotiations with stakeholders. In this case, principles and objectives are not drawn up according to pre-set guidelines but are the outcome of a compromise between external parties and the company (the theoretical reference to this is the “*Stakeholder Theory*” of 1984). This approach has been widely studied and is widely appreciated by the academic world.
- A third approach, identifiable amongst the recommendations made by the European Commission (Communication from the Commission of the European Communities: Corporate Social Responsibility: a Business Contribution to Sustainable Development - Bruxelles, 2.7.2002 – COM/2002 - 347 final) follows the *Guidelines for Multinational Enterprises* written by the OECD in 1976. It is the voluntary approach which, even though it is not standardised, has to take full account of the principles laid down by the UN and the OECD, primary sources for useful guidelines for the definition of the concept of corporate ethics.

The most important reason for this approach is the European Commission’s determination to contain the spread of choices which are too far away from the social guidance established at international level. This is also shown by the implicit willingness to enhance the strategic guidance function of the *res publica* system - the common government and the law — in relation to social and development issues and avoid the creation of too many “ethics” with limited reach at the service of different national and local interests, individual companies or stakeholders.

Corporate Governance

The rules that govern a company can be summarized by its Articles of Associations, the powers conferred on the management, the internal regulations, the codes of conduct, the operational manuals and even commonly used practices.

A company competes in its own market but, at the same time, it constantly interacts with stakeholders and intermediaries. Therefore, very rarely can the *governance* of a company be interpreted as the mere compliance with laws, rules and regulations.

In the most common practice, the scope and complexity of the *governance* goes beyond the normal obligations by law because there are other norms to be complied with as well, such as those of the trade associations, the stock exchange and the financial markets, the standards relating to quality and preparation of balance sheet, contractual rules or, more simply, the rules applied in communication.

Finally, as we have seen, there is an even higher level where alongside external rules a company willingly imposes upon itself additional rules aimed at respecting society and nature which are not compulsory:- this is called Corporate Social Responsibility.

According to the **OECD**, *corporate governance* is all the rules and the bodies that govern a company and is based on **five pillars**:-

- Shareholders' rights;
- Fair treatment of members;
- Role of stakeholders;
- Responsibilities of the Board of Directors;
- Transparency and communication (OECD - *Principles of Corporate Governance*).

According to the United Nations, the OECD and the European Commission, the first measure that a company wishing to achieve sustainable and socially responsible

development or to have its **Corporate Governance** in line with international principles ought to take is the definition of clear behavioural rules supplementing the existing ones. For the European Commission and the Council of the European Union, these rules must be fully transparent and have to comply with what has been laid down by the UN and the OECD (Communication 347, details as above, and *Resolution on Corporate Social Responsibility*, Council of the European Union, Bruxelles, 3 December 2002).

Compared to many models currently in use, the full application of international guidelines would have many effects, one of which is the inclusion of *fair* competition as a central element of corporate ethics. This is an important measure because the “*social statement*” of the Italian Ministry of Labour and Social Policies does not provide for indicators on competition. As a matter of fact, this issue was ignored by many questionnaires on Corporate Social Responsibility.

As an alternative, the definition of “*independent advisor*”, with a multitude of approaches currently adopted in Italy, could be reviewed to include issues related to relationships with relatives, total amount of appointments (i.e. *interlocking directorships*), or duties of transparency in relation to the “*comply or explain*” principle, just to give some examples. In this regard, amongst the many documents, it is worth highlighting the *Communication of the Commission of the European Communities: Modernizing Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward* (Bruxelles, 21.5.2003 - COM - 2003 /284 final).

Methods and Principles

The AEI classification

In the light of international institutional guidelines by the UN, the OECD and the EU, AEI Standard Ethics has developed an evaluative model to analyse the documents from the above mentioned *sources*. These documents are then vertically classified on the basis of the weighting assigned by the organisations themselves. They are also horizontally classified according to three macro-areas:-

1. *exercise of ownership*
 - a. towards third parties
 - b. within the company

2. *exercise of management*
 - a. towards third parties
 - b. within the company

3. *exercise of competition*

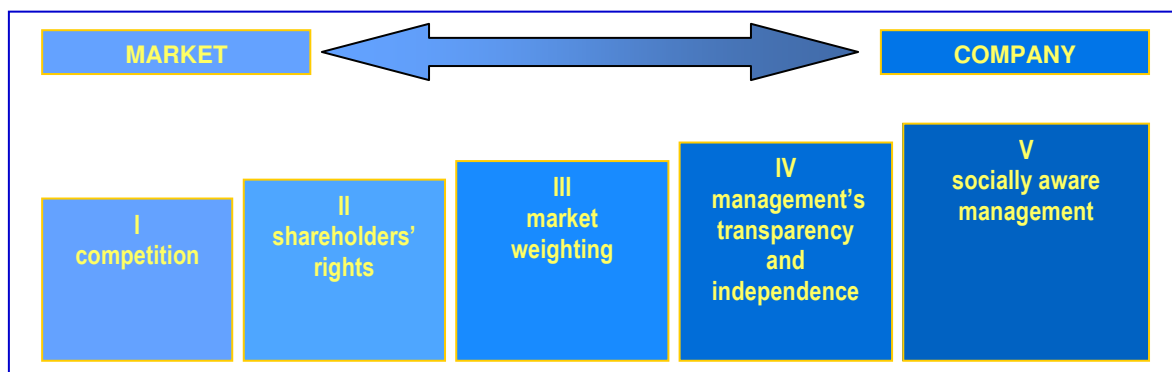
This is a fairly recent classification which replaced the previous one of July 2004. The classification was the outcome of a meeting coordinated by AEI Standard Ethics and attended by representatives of **CGIL, CISL, UIL, Confindustria, European social partners** and **International Organisations**. By adopting this model, AEI aims at testing any adjustment in the field and drawing up a relevant report.

Evaluative Factors

This classification is the first necessary step to developing five sub-models linked to as many wider evaluative factors for the **management of the listed company** and the **management of its ownership** with reference to:-

- the management of relationships with competitors (*in the interests of free and fair competition*);
- the management of own shares, with or without voting rights, or debt instruments (*in the interests of individual shareholders and bond holders*);
- the management of relationships with the stock market and investors (*in the interests of the market*);
- the management of its board members, supervising bodies and managers (*in the interests of transparent operations which are free from conflicts of interest*);
- making sure that company's operations in relation to its own and third-party investments comply with UN, OECD and EU guidelines from a social, environmental and corporate governance point of view (*in the interests of sustainable development*).

The above factors can be used to evaluate a company on the basis of *inputs* and *outputs* to the outside world (the policies it adopts vis-à-vis the market) and on the basis of internal management processes. A further reason why they were adopted was to comply with the approach adopted by the **OECD** in its own *Guidelines for Multinational Enterprises* and *Principles of Corporate Governance* (both the first and the second versions).



Standards

The five evaluative factors were then further refined into as many *Standards*.

Each one of the five Standards represents an ideal “behavioural” model. This is the best conceptual simplification that was arrived at in order to efficiently communicate the fundamental elements of Ratings.

For each Standard there are five sets of indicators which are at the basis of the analysis that leads to what is known as “*pre-evaluation*”.

The “*pre-evaluation*” is the first analysis carried out to measure where the company being rated is in relation to corporate ethics as proposed by the OECD, the EU and the United Nations. Appropriate strategies to evaluate individual companies were subsequently adopted.

In order to avoid excessive technicalities when analysing indicators and describing the *pre-evaluation model*, the five Standards that a listed company has to meet are as follows:-

1. to hold a non monopolistic position, not being part of a monopolistic cartel and carrying out fair competition;
2. to have a capital, subdivided in shares, which is not bound by norms or agreements (in relation to the exercise of rights) and is freely purchasable or transferable;
3. to have widespread ownership without major shareholders or, alternatively, a major shareholder who has no interest which is potentially divergent from those of his/her company;
4. to make sure that all its board members and managers are independent, including independence from the owners, and comply with a Code of Conduct – supervised by an internal body – which guarantees transparent activities and limits conflicts of interest;

5. to have a procedure to verify that its own and third-party investments are in line with the most recent internationally recognised social and environmental standards. In other words, they have to show that they pay attention to procurement processes of raw materials, production and distribution of goods and services. They can also use adequate internal codes of conduct to carry out this activity. They also have to operate with the utmost integrity and observe the Universal Declaration of Human Rights approved by the United Nations on 10th December 1948 as well as the main international norms supplementing and qualifying it.

The Evaluation

The Sample

The results shown in this Annual Report are based on a sample of **101 Italian listed companies which were rated** by AEI Standard Ethics, regardless of their size or percentages within the various indexes.

These companies belong to three large groups, two of which have official indexes in the Italian stock exchange:-

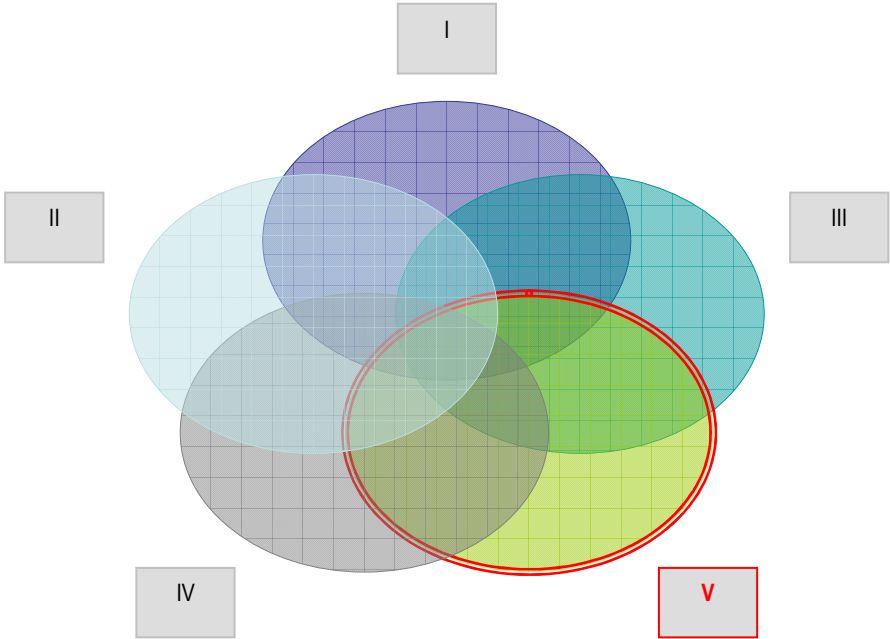
- listed banks (bank index);
- the SP-MIB 40;
- the Segmento Star.

As has already been stated, AEI Standard Ethics analyses issuers in accordance with an ethical “benchmark” (OECD, UN, EU) which is subdivided into three areas and adjusted (through indicators) in order to examine compliance to the five ideal Standards.

Only in the case of the first four standards are the indicators basically identical for each company. For the fifth standard, which is more relevant to control and production issues, the indicators vary because they are influenced by the different economic and industrial activities. An example would be the different values assigned to good practices for the harmful emissions of a chemical plant vis-à-vis a bank.

During the *pre-evaluation* each Standard has a theoretical weighting of about 20% towards the final evaluation, even though particularly important cases can require different weightings from this first step. Moreover, ambiguities or discrepancies (mainly within the fifth Standard) can and do force AEI Standard Ethics to temporarily suspend the rating (pending further clarifications) or to be more cautious and prudent in its evaluation.

The fifth Standard, at any rate, has been compared bearing in mind the different types of companies.



The Indexes

The evaluation carried out on the basis of this approach shows that the average value of the 101 Italian companies which were rated by AEI Standard Ethics (Finmeccanica and STMicroelectronics are excluded because their evaluation was suspended) is “**E+**”, lower than “**EE**” which AEI deems to be the European average (euro zone).

Only **7** companies, just under 7% of the total, have reached a level close to excellence (between “**EEE-**” and “**EE+**”).

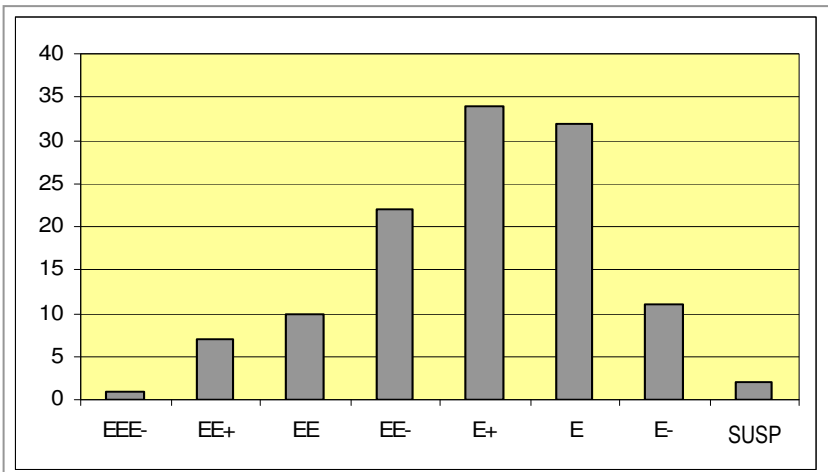
The companies which have reached a level higher than the Italian average of “**E+**” (i.e. between “**EE**” and “**EE-**”) are **25** (24.7%).

The average (“**E+**”) has been reached by **33** companies, i.e. 32.6 % of the companies which have been evaluated.

The largest part of the sample, **34** companies (33.6%), has clearly shown improvements in terms of Corporate Social Responsibility, at least according to the guidelines issued by the United Nations, the OECD and the EU as interpreted by AEI.

Detailed breakdown:-

- 1 company = EEE-
- 6 companies = EE+
- 8 companies = EE
- 17 companies = EE-
- 33 companies = E+
- 25 companies = E
- 9 companies = E-
- (2 “pending” companies)

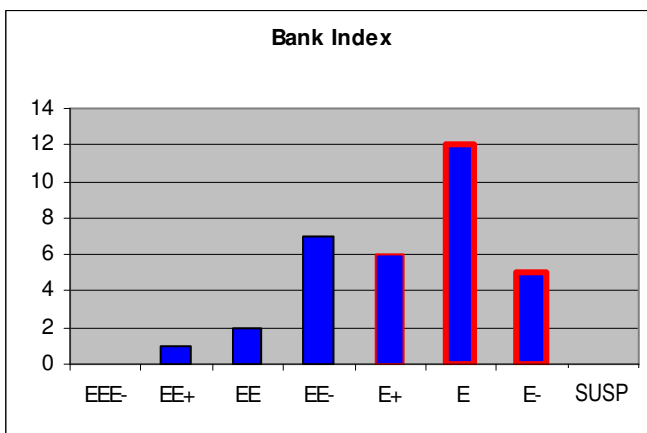


The table below shows the ratings by index. *Apart from being included in the bank index, 18 banks are also included in the other two indexes and therefore the total amount of individual ratings is 119):-*

	BANK INDEX	SP-MIB 40	STAR
EEE			
EEE-		1	
EE+	1	2	4
EE	2	3	5
EE-	7	6	9
E+	6	8	20
E	12	15	5
E-	5	3	3
SUSP		2	

The Bank Index

The Italian banking sector or, at least, Italian listed banks, seems to have the less virtuous of the three indexes, with 17 companies rated below the Italian average (51%) and 10 companies above the average (30% approx.). In comparison with the average level required by AEI Standard Ethics (i.e. “EE”), 30 banks out of 33 have ended up with ratings which are not brilliant.



As will be highlighted further on, the different approach to the parameters used for “non economic” evaluation of companies affects the final ratings.

Those who deal with Corporate Social Responsibility, both when evaluating companies and when conferring **prizes** or recognitions of a various nature, include charitable activities

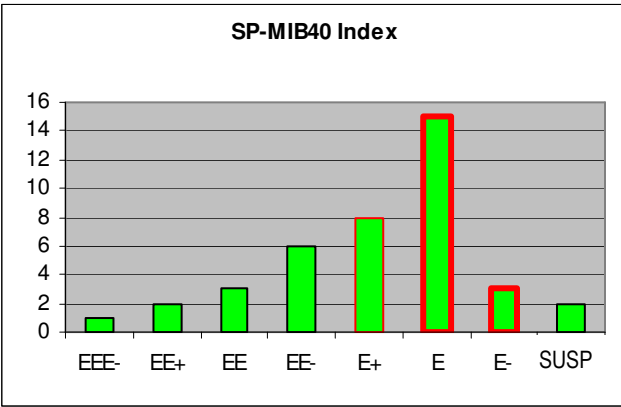
amongst the distinguishing elements worthy of a favourable judgement and therefore come up with a more positive evaluation of the banking sector. When evaluating international organisations, this aspect is marginal, if not insignificant.

A further potential distortion comes up when industrial types of indicators are applied as, for instance, those related to environmental issues.

AEI indicators include central themes such as consumer protection (see **UN** Resolution 39/248 of the UN General Assembly, 16 April 1985: Guidelines for Consumer Protection), the protection of minority shareholders (see Principles of Corporate Governance by the **OECD**), or the consistent codes of ethics or conduct (see **EU's** Communication 347, details as above). In line with the repeated appeals by **CONSOB** and **Bank of Italy** to have more efficient and transparent management, all these elements highlight the areas into which banks are asked to put more efforts.

The SP-MIB 40 Index

The overall evaluation of the **SP-MIB40** index is marginally better than that for the bank index, with 12 companies – out of the 40 companies which make up the index, that is to say 30% - above the Italian average, 20 (50%) below this average and 8 companies which a rating in line with the average (“E+”). The only “EEE-“-rated company (**ENI**) is to be found in this Index even though it has a “*Negative Outlook*”.

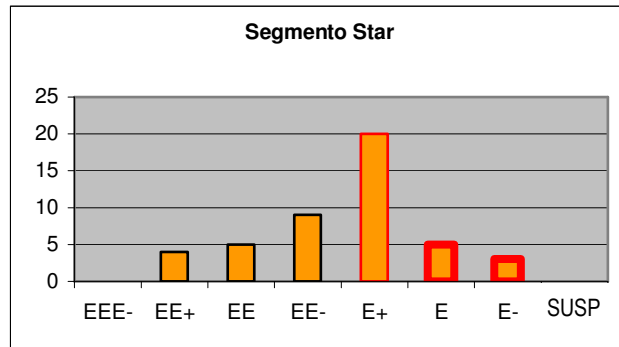


In this context, the use of indicators to measure the degree of fair competition, fair treatment of minority shareholders, consumer protection (just to give a few examples)

draws attention to delicate issues for many companies in the index. These issues are not always analysed by those dealing with CSR.

The Segmento Star

The **Segmento Star** is a virtuous case with about 39% of companies above the Italian average (18 companies). The largest group is in line with the average (20 companies or 43%), whereas 8 companies (17%) are below the average.



The **Segmento Star** is an interesting index which deserves the authoritativeness it has gained because it is a serious attempt by the **Italian Stock Exchange** to introduce more sophisticated themes related to Corporate Governance, with particular attention on transparency, reporting and independence of management.

The Standards

The indexes have also been analysed on the basis of each Standard. A score (expressed in hundredths) has been assigned to each index for:-

- I management of relationships with competitors (*in the interests of free and fair competition*);
- II management of own shares, with or without voting rights, or debt instruments (*in the interests of individual shareholders and bond holders*);
- III management of relationships with the stock market and investors (*in the interests of the market*);
- IV management of its board members, control bodies and managers (*in the interests of transparent operations which are free from conflicts of interest*);
- V *control of the company* to guarantee the application of UN, OECD and EU guidelines from a social and environmental point of view.

The following table shows the detailed scores:-

	I	II	III	IV	V
Bank Index	100	36.30	37.8	18	45.4
SP-MIB 40	77.50	42.50	38.70	33.70	47.5
Segmento Star	97.80	83.6	26	16.3	46.7

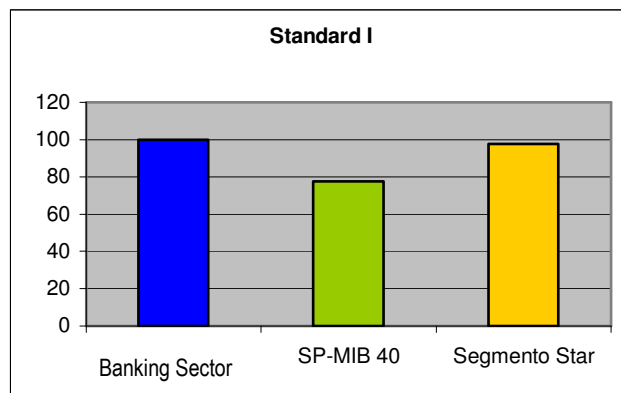
Standard I

As far as the first Standard (competition) is concerned, the banking sector has

achieved the highest score (100) because there is no single and obvious case of controversial competitive activity or near-monopoly situations. The problem of competition, however, is very real at a systemic level (as highlighted by the analysis carried out by AEI Standard Ethics last February and as shown by the latest initiatives on banks' current accounts introduced by the Bank of Italy and the Italian Antitrust Authority).

According to the evaluation carried out by AEI Standard Ethics, the quality of the competitive activities by the actors in the banking sector is poorer than in other European countries. Apart from some banks, the uniformity of many services highlights a type of competition which is characterised by little research and innovation as well as conflicts of interest between banks and their shareholders or managers which, however, do have an impact on Standard IV.

The **Segmento Star** has been given a high score too (97.8). This is due to the type of companies which were evaluated and the marked globalisation of the main markets. In turn, they reduce the risks of unfair competition or competition based on support or privileges which are directly or indirectly attributable to the States. However, there are clear controversial elements when it comes to the **SP-MIB 40** index (77.5), not so much because of the size of the companies, which at international level do not manage to

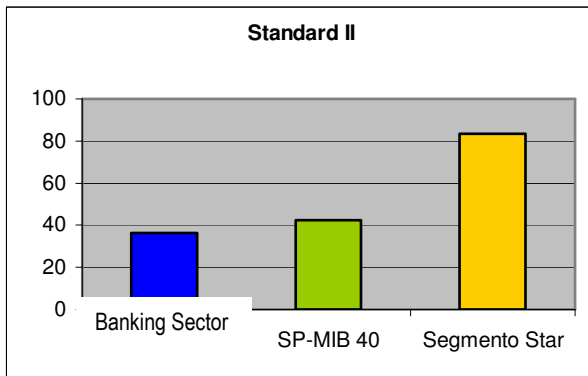


reach the highest positions, but because of their presence in more risky sectors: from telecom to media and insurance. As far as the insurance sector is concerned, the position expressed by the Italian Antitrust Authority and relevant sanctions – confirmed by the Italian Regional Administrative Tribunal and the *Consiglio di Stato* (sentence no. 2199 of 23rd April 2002) – had to be taken into account as well. The Italian State has certainly been inefficient in regulating some of its economic sectors whose characteristics entailed the risk of monopolies and cartels. In Italy, the privatisations, or the assignment of public

concessions, of the last two decades have not always been matched by measures aimed at ensuring a balanced competition. And even some companies which were in a near-monopoly situation or had a dominant position have often hindered rebalancing measures.

Standard II

As far as the second Standard is concerned, the imbalance amongst the **substantive rights of shareholders** is very apparent in the **banking sector** (score = 36.3), where the voting trusts, for instance, are very common and, in general, have particularly aggressive



and binding features for the parties in question. Consequently, the statutory decision-making centres lose their prerogatives, at least at strategic level. This negative implication affects the overall score of the bank index and, in a way, penalises a business which – even with the above mentioned limitations – is still

one of the most competitive and important businesses in the country. The use of agreements between all or some shareholders to manage the general meetings is not even justified by the need for stabilisation. The episode involving **Banca Nazionale del Lavoro** - with two conflicting voting trusts and no explanation given to the other shareholders – highlights the weakness of general meetings as instruments.

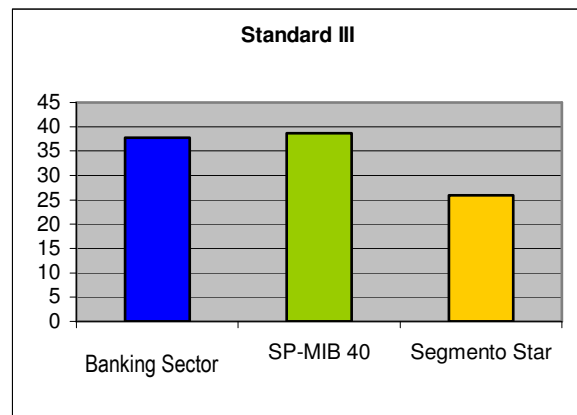
The **SP-MIB** index (score = 42.5) is not immune to the problems of the agreements between all or some shareholders because its companies tend to use them to protect shareholdings held by families.

As for **Segmento Star** (score = 83.6), however, minority shareholders are more protected and the *governance* of the main body of the company is based on greater transparency. Obviously, the size of the companies enables controlling shareholders to exercise their prerogatives thanks to shareholdings that are higher than the absolute majority and,

therefore, a voting trust is unnecessary. However, those cases when obligations towards voting rights are impromptu because they are mainly linked to the stability of the majority shareholder during quotation or to the right of option are not exceptions.

Standard III

The third Standard, which refers to the **spread of ownership** (presence of the market within the company even in relation to decision-making processes), highlights a common problem: the average score is well below a desirable level for all three indexes. When it comes to the decision-making process, the market is not very representative both for the very limited use of the *public company* model and the very nature of management selection.



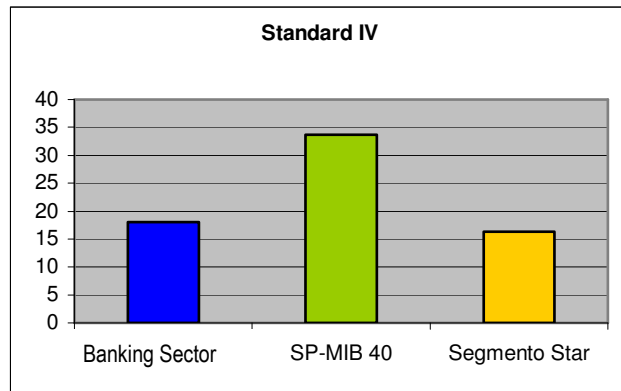
In the case of **Segmento Star** (score = 26) this is more marked and is certainly due to the characteristics of the family-style capitalism on which many companies belonging to the index are based. The other two Indexes have a relatively better position (score = about 38 for both) but still weak.

Standard IV

As far as the **fourth Standard** is concerned (basically the **independence of the management**) the weakest cases are to be found in the **banking sector** (score = 18) and in the **Segmento Star** (score = 16.3). There is, however, a substantial difference. In the former, this characteristic is worrying because it weakens the efficiency and the transparency of the banking system and lays the foundation for clear cases of nepotism as

well as non transparent relationships within the banking sector or the production sector (the well known vicissitudes of **Parmalat** and **Cirio** are amongst the many tangible examples of this concern). In the second case, the issue relates to individual companies. The problem of management independence in family type of companies is being studied in depth.

A working **hypothesis** on which AEI Standard Ethics is focusing is that the efficiency curve of a family-run company which is not so willing to adopt the modern Corporate Governance (whether it is a medium or large sized enterprise) tends to grow with the first generation. However, it may lose momentum at a later stage if the company does not have a management team which, with due independence and professionalism, works with the owners in order to meet new market challenges and make strategic choices.



Therefore, it is fair to assume that managerial inefficiency mainly affects a company when it comes to its decision-making process whose weakness, amongst other things, leads to a non exhaustive analysis of the productive and commercial circumstances thus invalidating the development of an organic strategy.

The main risk of family type management – and this is a risk that is difficult to eliminate - is the conflict of interest typical of a manager who is also the owner. During the general meeting, when day-to-day management and strategic planning are being analysed, the shareholders end up evaluating their own work and proposals. The owner’s role and the manager’s role – in complex and listed companies – are intrinsically oriented towards different interests. For instance, the good of the shareholder comes from the profit whereas that of the manager comes from the efficiency of the company. These two issues

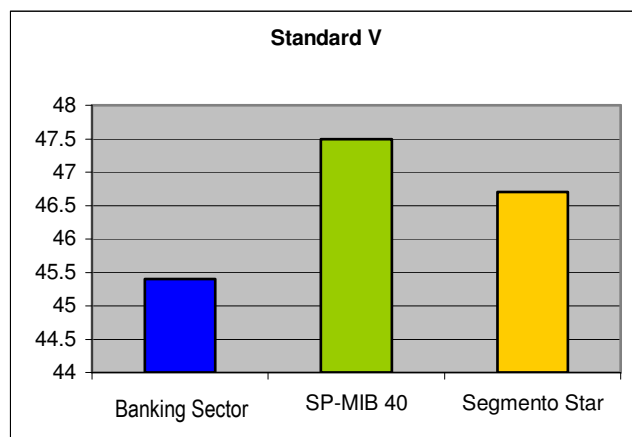
are not always converging. These are two parallel universes divided by laws and forces which can be opposite too. Attempting to merge them – even through the use of profits as the main type of remuneration – has produced monsters such as **Enron**, or, at the other end of the spectrum, **Parmalat**.

Adopting tools of Corporate Governance, with particular reference to **Corporate Social Responsibility**, based on the most modern approaches as suggested by the large international organisations, could lead to a serious structural innovation of Italian companies. This would fill a cultural and regulatory gap which mistakes the family type company for a company run in an improvised, impromptu, defeatist and/or adventurous fashion by a controlling shareholder.

The main characteristic of the family type companies should not revolve around the misunderstanding whereby the owners are authorised to manage the day-to-day activities of the company with the utmost independence. This is so, because their huge powers as shareholders mainly concern choices which should be made by the general meeting, that is to say the full right to appoint or fire managers, the choice of the most desirable (for them) strategic direction or the closure of the company if they think that it is no longer profitable.

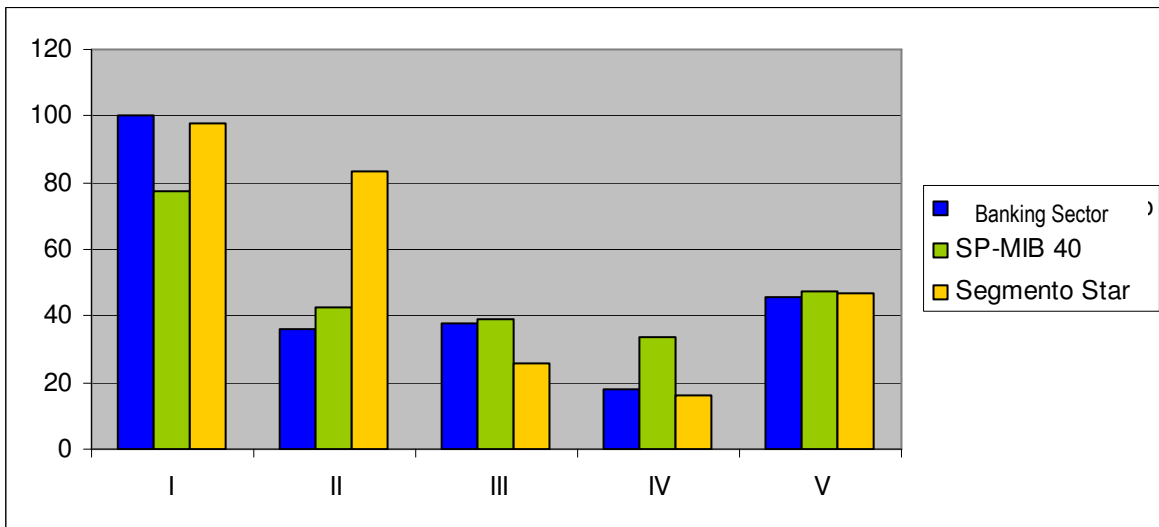
Standard V

The fifth Standard is probably the most delicate to analyse. Harmonising the data which are affected by a company's peculiarities is very difficult. AEI Standard Ethics **did not** notice major differences between the three sets. The large non banking companies show what seems to be a more structured



efficiency when it comes to controls. The **SP-MIB 40** index (score = 47.5) has, in fact, obtained a slightly better score (but not significantly so) than the **bank index** (45.4) and the **Segmento Star** (46.7).

Because cases and approaches are highly individual, a general comment is not feasible. However, in the case of Italian companies very rarely highly negative situations show up.



Codes of Conduct and Ethical Principles

Even though they are not the subject of this study, the ***poor influence of ethical codes*** on the ratings assigned by AEI Standard Ethics highlights – at least for AEI – a problem of credibility and consistency of these documents. Therefore, dwelling upon this aspect seems necessary.

The existence of a somewhat ethical “relativism”, based on different values or a different perception of morals, characterises our modern, western, open and multiethnic society. Political competition is often characterised by opposing views on social development and its sustainability.

Corporate Social Responsibility is therefore a concept whose interpretation varies according to the angle it is looked at.

As stated at the beginning of this Report, it is clear that the exclusively “subjective” approach or the one based on the “*stakeholder theory*” does not require - nor does it substantially provide for - a benchmark of previously codified values. If this were so, the majority of the current experience would have a natural consistency which, however, seems to be missing.

In this unorganic context, those consultants who deal with CSR seem to adapt themselves to the various approaches from which Corporate Social Responsibility suffers. The services they offer seem to concentrate on meeting various requests:- a sort of multi-ethics, an “***on demand ethics***”, to be used by the client. When it comes to drawing up Ethical Codes, Codes of Conduct or social policies or reporting (including social accounting, environmental budgets or sustainability budgets in general), this is the most common approach both in the world of finance (and investment funds) and in companies. Given the general nature of the definition of social projects, it is unthinkable that every actor of the system individually supports his/her model for sustainable development. However, it is natural that, amongst the many models that are proposed, a company draws

inspiration from one of them and gives the outside world an opportunity to understand and measure the true importance it attaches to social commitment. This would enable the company to communicate an ethical “benchmark” and to have objectives in relation to its own internal rules of conduct, thus avoiding that documents on corporate ethics are devoid of references and credibility.

In this way, the first question that a company might ask itself is:- What social development and environmental protection model do I want to pursue? The second question could be:- How do I intend to do this? The third question would be:- Has the model and the various positions been clearly defined and communicated to the stakeholders? Having clarified all this, any evaluation becomes simpler.

Consultants and “evaluators” who work in this sector could not get away from these obligations and would have to find answers to the same questions:- On what basis is an issuer judged? On what basis can certain indicators be identified? Has the point of view used to express judgements been properly communicated? In the case of consultants:- Upon what basis can codes of conduct, ethical codes and social programmes be built?

These are not secondary questions and deal with very concrete aspects.

Let’s provide an example that holds true for everyone. Today there are banks which have decided not to support or do business with companies linked to the defence sector. This is a legitimate, non economic choice which is fully within CSR and can, very simplistically, be defined as “pacifist”. A bank that has taken up this position should harmonize its communication so that the choice is organic and credible.

The analysis carried out by any “evaluator” would deepen the level of commitment that the company takes in that direction. In practical terms, evaluators could check and see whether the ban to invest in the defence sector has been extended to the bank’s own investment funds or even to those that are directly marketed. They could also verify whether related companies producing fuel or chemical, electronic and mechanic materials

for the weapons are being financed by the bank. Or if the bank uses armed guards to protect its own branches or whether it uses alternative systems. Or if it owns shares in companies (or other banks) which are active in the defence sector; and so on.

In this way, the necessary distinctions between banks which have adopted the same formal stance but pursue it with different levels of conviction can be made. Other banks could choose not to exclude the defence sector as a whole from its own investments but **not** to have relationships with those companies which do not ensure the full compliance to UN, OECD and EU norms and guidelines in this area. This could also involve their final clients. In this case, the “ethical” commitment will have to be based on the creation of information gathering practices which, as in the case of economic *due diligence*, will be used to evaluate the *compliance* to UN, OECD and EU norms by its own clients who manufacture or market arms.

In the first case used as an example, there will be a more or less generous evaluation on the part of those “evaluators” or investment funds which use negative criteria for exclusion such as the defence one.

In the second case, there will be a definite negative evaluation on the part of those who exclude any relationships with the arms’ sector. Vice versa there will be a more or less favourable evaluation by AEI Standard Ethics (or similar “evaluator”) because it views favourably a company which does its best to actively support the principles and rules of the United Nations.

Obviously, the same example can be related to countless cases, from oil companies to manufacturers of contraceptives, which could be judged differently by “evaluators” using different social development models.

Therefore, defining one’s own direction is essential to clarify the meaning assigned to “corporate ethics” and Corporate Social Responsibility and to make one’s commitment measureable to the advantage of investors and the community.

It would also be clear once and for all that in this context **measurements in absolute terms** are not possible and that each judgement relates to a specific evaluation system. If this system is changed, the company being rated could receive different judgements. The fact that, so far, this approach is pursued by few shows that the situation is still evolving.

In finance, the **supervising authorities** imposed the **concept of benchmarks** in order to give investors a measure of comparison to evaluate the outcome. Not a single benchmark because, and rightly so, operators were given the right to choose the type of comparison to make, but a clear, defined and well communicated benchmark. In other words, what is missing within Corporate Social Responsibility.

The European Commission has given its opinion on these issues. The principle of the *voluntary nature*, which leads the European Commission (and other organisations) not to come up with a rigid standard, does not mean adopting an arbitrary attitude or being subjective, two practices against which the Commission has expressed itself very clearly (Communication 347, details as above). According to AEI Standard Ethics, it means not embracing the idea of an “all-inclusive” and “standard” certification (this cannot be suggested) as opposed to the possibility of choosing different ideal references.

This concept should be further developed, otherwise the outcome of this misunderstanding could cause international socio-environmental strategy and national, local or company CSR guidelines to diverge. Not to mention that there would be a tacit reorganisation of some practices on corporate ethics which the OECD, the UN and the European Commission are strategically trying to eradicate.

The manipulative use that, at times, is made of **charitable commitment**, which does not belong to CSR, erodes the concept of corporate ethics and debases its content. In line with the European position, any voluntary social commitment ought to be delegated to companies. However, this should not mean for local or central governments that they are in an advantageous position vis-a-vis those who intend to comply with the law.

However, who in Italy has to introduce a behavioural model that asks to indicate one's own

ideal reference? Who has to guarantee the right to choose the preferred principles of Corporate Social Responsibility without being penalised? What role are the Italian public administration, the supervising authorities and the markets' regulatory authorities playing in this regard?

The public administration or the supervising authorities seem to enjoy a high degree of independence on different levels and with different objectives.

There are numerous examples of this:- *Sorella Natura*, the interesting initiative launched by the **Bank of Italy**, the authoritative initiative by the **Minister for Foreign Affairs** in favour of the *Global Compact* of the United Nations, the important programme of the **Ministry for Social Policies** with the *RSI-SC project* and various regional and local initiatives. In every case, these are institutional activities with various ambitions which do not aim at regulating initiatives on CSR but offer new models.

Amongst the many initiatives, the most authoritative one from an institutional point of view is that of the **Ministry of Labour and Social Policies**, which aspires to provide a reference model at national level.

The central element of the *RSI-SC Project* by this Ministry is a set of indicators called "*social statement*", for which the "ideal matrix" is not given. Bearing in mind that for its development the opening of a stakeholders' forum is envisaged, it is reasonable to assume that this initiative stems from the socio-economic government policy.

From the point of view of AEI Standard Ethics, there has not been the full adoption of principles, weightings and measures proposed at international level. This can be seen in various areas. From a technical point of view, the number and type of indicators which make up the "*social statement*" underestimate the weight of the Corporate Governance, the management of the ownership, and, above all, the weight of fair and non monopolistic competition. These are central elements of OECD, EU and UN guidelines.

From a general point of view, the role of the “evaluator” and “awarding body” that the Ministry seems to have created for itself, at least for the future, does not seem in line with the more orthodox notion of “*voluntary nature*” given the clear risk that there might not be the same degree of dignity between a company which is aligned with the model suggested by the Ministry and a company which embraces another model or does not put CSR into practice but confines itself to simply – and this is not little – complying with the law.

It is also reasonable to think that the rationale behind the EU, OECD and UN guidelines does not provide for the expectation of receiving a reward following a Socially Responsible action. The motivation should be a different one. If anything, any **added value** that a company could derive should come from the market, the companies, its organised representatives and the social partners.

That said, it seems proper to supply a national reference model that can be freely used as “benchmark” by, obviously, those who share its approach and the ideal matrix.

Italian Regions are also proving themselves to be very active in this field. As in the case of every new initiative, there are contradictions and discrepancies with the central government.

This is the case of regional administrations which reduce Corporate Social Responsibility to the promotion of **SA8000 certification** (which outlines the main features of a responsible labour policy).

SA8000 Certification, which is scarcely used abroad, is a targeted and specific product that was conceived to make multinationals responsible if they work in countries which are economically and legally more backward. It obviously produces its effects in those nations which have a weak labour legislation because it demands observance of rules which have been applied for years in most advanced countries.

In this regard, it seems clear that those dozens of certified companies export working

conditions which are acceptable in the few production sites they have abroad. However, no new element of Corporate Social Responsibility is introduced and spread within the region, neither for local companies nor – and this should not be forgotten – for the multinationals which have their production sites in the Region. In this case too, at local level we have a potential ethical “benchmark” which does not contribute to the sustainability of development nor does it provide the entrepreneur, or trade unions, with anything new to reflect upon.

Exporting basic labour rights to less fortunate countries has an innate deep value and has to be pursued in agreement with the International Labour Organisation. However, this issue is not linked to the sustainability of development as it depends to a large extent on the behaviour of the entrepreneurs who produce goods and employ people in that Region.

Amongst the regions which adopt these approaches, there are regions, such as **Tuscany**, which, apart from what it does in terms of CSR, are quite advanced in terms of rights and equal opportunities, as expressed by the UN, the OECD and the EU.

Conclusions

The scientific analysis of the most recent cases – and not only Italian – of family run businesses in difficulty will definitely provide a clearer picture of how Corporate Social Responsibility can be a tool to enhance the quality of the Italian corporate world.

The recent problems faced by **FIAT**, the restructuring of companies such as **Pirelli** or **Mediaset**, and their generational handover during the last decade, the dramatic events of **Parmalat** and **Cirio**, are only some of the many cases worth examining in depth.

Italian family capitalism is an interesting case with obvious anomalies. Nonetheless, it belongs to a tradition based on small and medium sized enterprises. Eradicating an established system which is strongly intertwined with Italian social life is a hypothesis whose risks are difficult to calculate. Having said this, leaving the few but clear contradictions that this system is producing unsolved does not help to limit the related social costs.

The **Guidelines for Multinational Enterprises**, produced in the distant 1976 by the OECD, outlined the bases for a modern concept of Corporate Social Responsibility. Perhaps the fact that the *Guidelines* were proposing a company model which was then far away from the Italian tradition explains the reasons which forced the governments of the Italian Republic to not apply the OECD document convincingly. Today, it seems as if steps forward are being made.

Corporate Social Responsibility, whose *raison d'être* is the *voluntary nature*, could be usefully interpreted by companies according to the model which provides for the definition and communication of an ideal and ethical “benchmark”. Obviously the interested parties are left free to choose and deal with the model of sustainable development deemed to be more suitable and the one proposed by the United Nations, the 'OECD and the EU could only by one of many.

State and **Regions** must play an important role in impartially addressing the development of CSR without falling into the temptation of conferring upon themselves the right to reward or glamourise those companies which they deem to be closer to their proposals thus avoiding and weakening the **principle of the voluntary nature**. According to this European principle, which is at the basis of CSR, it is not the public administration but the market, the consumers, the savers and the social partners who have the task of rewarding **in the field** those companies which distinguish themselves thanks to their commitment toward sustainable development.

In cooperation with the public administration, **social partners** could develop a common language to use for discussions that would facilitate this process.

The guidelines prepared by the European and Italian trade unions as well as industrialists' associations are encouraging and aim at clarifying misunderstandings related to CSR. Some examples are the introductory report of the Conference on CSR organised by **CGIL** in November 2003, the measures taken by **CISL** and **UIL**, the efforts being made by their European counterparts, including the **ETUC**, or the approach that the research department of **Confindustria** is adopting on this issue.

The **ratings** assigned by AEI Standard Ethics to Italian companies, which will be reviewed in the short term only if there is important news, show the country's independence by culture in managing its own corporate world. This peculiarity has led the country to be closely associated with the family dimension of businesses. Its unique nature has been passed on to the financial markets, partially thanks to the use of agreements between all or some shareholders which allow families to run large companies. The lack of independence of management from the owners, even in the large listed corporations, does not seem to be perceived as a serious weakness in spite of the dramatic and striking cases which have indisputably proved the opposite.

The weight of the market in managerial processes seems to be marginal. Management recruitment is in some cases a controversial factor as it relies on a type of selection which

is at times obscure and whose meritocratic efficiency is doubtful. The proximity between large companies and the State is, in some cases, an unresolved issue.

There is good news, though, when it comes to relationships with stakeholders and the community. The companies, in fact, show openness and willingness in reaching the right compromises, something that does not always characterises foreign companies.

The 2004 **rating assigned to Italy**, as an OECD member state, was “EE+”, a level of excellence that, hopefully, might soon be attained by the average of Italian listed companies.

Full List of Ratings assigned to the companies of the three indexes taken into account (2004)

Actelios	E+
Aedes	EE
Alleanza Assicurazioni	E-
Amga	EE+
Astaldi	E+
Autogrill	E
Autostrade	E
Banca Antonveneta	EE-
Banca Carige	E+
Banca Fideuram	E
Banca Finnat Euramerica	E-
Banca Ifis	E
Banca Intermobiliare	E
Banca Intesa	E
Banca Lombarda	E+
Ban. Monte dei Paschi di Siena	EE-
Banca Nazionale del Lavoro	E
Banca Popolare di Cremona	E-
Banca Popolare di Intra	EE-
Banca Popolare di Milano	EE
Banca Popolare di Spoleto	E
Banca Popolare Etruria e Lazio	EE
Banca Popolare Io Lodi	EE-
Banca Profilo	E
Banche Popolari Unite	EE
Banco Desio e Brianza	E+
Banco Pop. Verona e Novara	EE+
Biesse	E+
Brembo	EE+
Bulgari	E+
Capitalia	E
Cassa di Risparmio di Firenze	E-
Cembre	EE
Cementir	E

Centrale Latte Torino	EE+
Credito Artigiano	E+
Credito Bergamasco	E
Credito Emiliano	E-
Credito Valtellinese	EE-
Cremonini	E
CSP International	E
DMT	E+
Ducati	EE-
E-biscom	E+
Edison	E
Emak	E+
Enel	EE-
Eni	EEE-
ERG	E+
Espresso	E+
Fiat	E+
Fiera di Milano	EE
Finecogroup	E+
Finmeccanica	sosp
Gefran	EE-
Generali	E+
Granitifiandre	E+
IMA	E+
Interpump	EE+
Irce	E+
Isagro	E+
Italcementi	E
Jauventus FC	E+
Jolly Hotels	EE-
La Doria	E-
Luxottica Group	EE-
Mariella Burani	EE
Mediaset	E-

Mediobanca	E
Mediolanum	E-
Meliobanca	E
Mirato	EE-
Mondadori	E+
Navigazione Montanari	E+
Negri Bossi	EE-
Panaria	E+
Pirelli	E
Racordati	E+
Ras	E
RCS	E+
Reno De Medici	E+
Reti Bancarie	E
Richard-Ginori	E+
Sabaf	E+
Saes Getters	E+

Saipem	EE+
San Paolo IMI	E+
Seat Pagine Gialle	E
Snam Rete Gas	EE
Sochoterm	E-
Sogefi	EE-
Stefanel	E+
STMicroelectronics	sosp
Targetti Sankey	E+
Telecom Italia	E
Terna	E
TIM	E
Tiscali	EE-
Trevisan	EE-
Unicredito	EE-
Vittoria Assicurazioni	EE-

Index of Names (in the text)

Bank of Italy
Banca Nazionale del Lavoro
Italian Stock Exchange
ETUC (European Trade Union Confederation)
CGIL
Cirio
CISL
European Commission
Confindustria
Consob
Eni
Enron
Fiat
Finmeccanica

ILO (International Labour Organisation)
Mediaset
Ministry for Foreign Affairs
Ministry of Labour and Social Policies
United Nations
OECD
Parmalat
Pirelli
Tuscany Region
Segmento Star
SP-MIB 40
STMicroelectronics
UIL
European Union

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- free availability of ratings to the general public;
- issuing ratings is not compatible with the supply of other services by AEI Standard Ethics.

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