March 2005

ÖVFA Publication Series
Corporate Responsibility

Recommendations for implementing corporate social responsibility on the capital market

- The capital market is best suited to implement objectives for the common good
- Corporate responsibility (CR) is a topic of global significance and will gain greater acceptance
- Investor awareness has to be raised substantially
- 20 concrete approaches for the realisation

Oesterreichische Vereinigung für Finanzanalyse und Asset Management

Since its foundation in 1972, the objective of the Austrian Association for Financial Analysis and Asset Management (Österreichische Vereinigung für Finanzanalyse und Asset Management, ÖVFA) has been to promote the flow of information between listed companies and investors, to provide analysts, fund managers and other investors with a platform for sharing their experiences, to better acquaint domestic and foreign investors with Austria's role as a financial centre and to represent the interests of its members to the public and within the scope of economic policy initiatives aimed at fostering Austria's financial market. The complex field of asset management, which presents great opportunities but at the same time carries numerous risks, makes it essential that the decision-making process be as efficient and transparent as possible.

Disclaimer
The purpose of this publication is to be thought-provoking and a contribution to the ongoing debate.

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Corporate responsibility and recommendations for the implementation on the capital market

Introduction and General Definition of Terms

Listed companies have responsibility

The inclusion of corporate social responsibility (CSR) as part of the corporate strategy is an attempt by companies to set themselves clearly apart from others. CSR is a very broad term, which comprises topics such as ethics, the environment, human rights, corporate governance, working conditions, real contributions to the common good, etc. Every non-governmental organization (NGO) and, in particular, all listed companies bear far-reaching responsibility toward their stakeholders (shareholders, customers, staff, suppliers). In the following, the term "corporate responsibility" (CR) will be used. The responsibility of listed companies comes down to acting with due care and responsibility.

The capital market serves to create order

The capital market is the best-suited platform to serve as a catalyst and, without doubt, the ideal framework for reaching a well-founded opinion on corporate responsibility and the proper, efficient management of a business. Therefore, CR will constitute the most important – but also the most challenging – topic for all capital market participants for many years to come, if not for decades. Modern capitalist economies without capital markets to serve as a key source of financing are unthinkable. Indeed, capital markets will gain a more significant and important role for the evaluation of a responsible conduct of business in the future. Driven by the growing pressure for greater transparency, the responsible conduct of business will result in a better functioning society – in an overall social economic sense – and thus create sustainable added value for stakeholders. This report aims to identify general points of discussion to help the process of putting CR into practice.

1. What Role Does the Capital Market Play?

The power of purification

Simply put: it separates the chaff from the wheat. Capital market investors are constantly being supplied with a plethora of information about listed companies. The information is examined and evaluated. Supply and demand on the market are factors that influence financial price determination both in a positive and negative manner, and sanctions are also part of the agenda. In particular, recently there have been numerous examples of unsparing discoveries of abuse: insider dealings, manipulated accounts, abuse of management power and many more. The pattern is simple: "Success (good) is rewarded, while failure (bad) is punished". Good and successful management is not evident only in short-lived and economic boom phases, but is sustainable in all situations, even in the most difficult phases of the economy or an industry. A manager who wishes to achieve success on the stock market cannot think and act only for the short term. Those who seek short-term success will fail miserably. Managers, of course, must be flexible, but they also need the determination to direct matters along the right track and have the necessary long-term strategic vision.

CR must be viewed as an element of sustainability

Neither is the market free of fault. Many market participants were brought back down to earth after the global technology bubble of the past few years burst. Many of the often sought-after managers and investors who had enjoyed short-lived success previously had to leave. Little is left of the promising and the vibrantly colourful visions. It is precisely in this context that CR (including applied corporate governance) is of enormous significance.

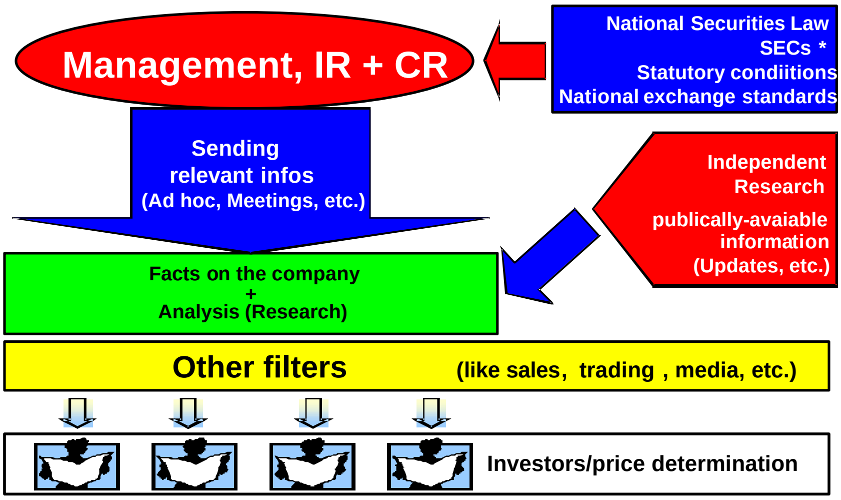
We need concepts designed for the long term

Acting on the capital market is without doubt controversial. Firstly, it is often greed for fast money that rules the day. This also frequently entices strategic investors and hedge funds to consider speculative transactions. However, the real idea behind a sustainable and viable capital market concept is not short-term speculation in the form of the often-quoted turbo-capitalism, but rather the assurance of a supply of capital to guarantee the existence of as many fundamentally solid companies as possible that keep what their management promises. Raising funds on the capital market is the only true alternative that a Western capitalist economy has to offer. Production sites, production capacities and jobs can only be maintained if a corporate strategy is logical and a company has the option of raising funds through the capital market.

The capital market does not forget

Open and transparent capital market communication in the form of clear and unambiguous information is a must have. Every investor understands the need for temporary, essential adaptations in the outlook for the near future. However, frequent changes to strategies and to presentations of business segments, etc. can be confusing and in the long run will utterly frustrate investors and cause them to run off. Institutional investors usually do not forgive – or only reluctantly – faulty communication and the entailing management errors. It often takes years to be on personal speaking terms again with the relevant fund managers once the management has committed such a sin.

Figure 1: The Communication Process



*) National supervisory authorities

Source: F. Mostböck

Money is invested by selective perception

Operating on the capital market is characterised by hard work and exertion, and requires integrity at all times. In any case, life on the capital market is harsh and only tough and tenacious managers who are not only able to present a credible, verifiable investment story, but are also able to live it are ultimately successful.

Capital markets – depending on investor interests – can financially penalize specific companies, which have infringed human rights, ethical principles, responsibilities, labour conditions or have generally acted against the public interest through their share price. In this regard, capital markets will gain an increasingly important role. It is definitely not as easy as before to raise equity on capital markets. Management quality and the resulting business success are assessed in practice by the market players acting as a sort of financial court. Recently, this trend was clearly recognizable with regard to IPOs (initial public offerings) as well as other transactions (capital increases, SPOs = Secondary Public Offerings). Moreover, as just about everything in the world revolves around money and the reputation of the company, the issue of CR will be taken ever more seriously in the future.

2. What Moves and Challenges Investors?

Investor relations is hard work

Investors are constantly being challenged, and are challenging others. Institutional investors in particular – who operate globally – demand of exchange-listed companies that the management act conscientiously in the sense of properly and efficiently run business due to the large volumes and very selective investments. This demand is legitimate. The benchmarks are generally local market indices or global and regional sector indices as well as peer groups, but above all the performance of comparable funds managed by competing investment fund companies.

Investors can create pressure

Investors are under pressure and pass this pressure on. Fund managers and pension funds are keenly aware of the need to achieve sustainable outperformance of the relevant benchmarks for their customers. Fund and portfolio managers are evaluated and paid on the basis of their potential to increment income. Excellently managed funds – that contain only the best-managed companies – and the personal qualifications of the fund managers are what attracts client money.

Money is not invested easily

Investment decisions are very selective. Fund managers under pressure to perform do not invest their capital easily. The carefully selected use of funds is proof of the efficiency of the capital markets in the sense of an optimal allocation of financial resources. Moreover, the funds may only be invested with the protection of the investment fund holders (shareholders) in mind who usually do not have the capacity to assess the financial and intangible details of a company being considered for investment, and who do not have the necessary knowledge of the local or regional market or of the established market practices.

Often it is the name that counts

Big moves the market. Excellent personnel resources and a good quality track record are without doubt one of the most important elements of an asset manager's reputation. Another factor not to be underestimated is the investing potential in terms of volume and liquidity of the respective capital investment company. Big and renowned firms in the asset management industry are coveted by both institutional and retail clients. The management of every listed company aims for good communication with global players, as they decide the success or failure of a price trend and the value of the company this price represents.

An independent market view has a benign effect

The influence of institutional investors is considerable. Another factor is the co-determination right in the company in accordance with the principle one share - one vote. Substantial stakes with voting rights are decisive at annual general meetings or on supervisory boards for influencing the development of a company. The more prominent the name and the bigger the potential investment of a fund company, the greater the attentiveness of the management and of the participants at the annual general meeting of the listed company being considered. Institutional investors routinely talk to the management of companies belonging to various specific sectors and regions. At these regular talks – so-called one-on-ones – there are open exchanges of opinion with regard to the existing strengths and weaknesses of individual divisions and even of the current corporate strategy. An exchange with the limited perspective of a company and the view of the market can be very productive too. The efficiency of the market is evident here as well.

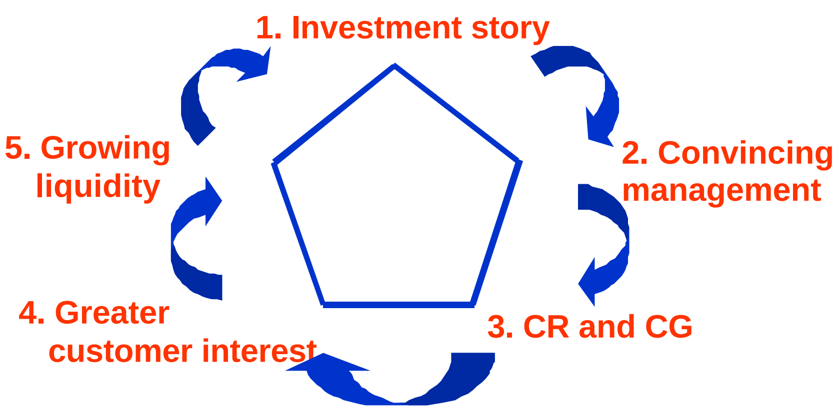
Understanding the market and adjusting to its needs

Only management able to accept criticism can benefit from market opinion. Managers also need the ability to correctly interpret and filter opinions. Often, the critical opinions of investors on specific subjects are actively taken up by the management and solutions are found not only not to appease well-known firms, but also to prove the management's ability and provide evidence for the track record. Overall, the influence of institutional investors is far greater than assumed. Managers who believe in the efficiency of the capital market are fully aware of this. The capital market is essential to generate equity capital for further expansion and growth, and to disappoint investors would clearly be a disadvantage. Essentially, everything is at stake and can be evaluated by the level of the share price at any time: reputation, productivity, and equity needs as well as variable wage components. The strongest effect is felt where – from any standpoint – it can mean financial costs.

The capital market can help realise goals for the common good

Now what has this got to do with CR and the capital market? The trend not only among investors, but also in the general population is increasingly to demand a flexible and more responsible conduct of business. Acting responsibly is expected of fund managers, and these in turn expect it of the management of listed companies. There is no doubt that pressure will come also from the general population who – with or without being shareholders – have developed an increasing awareness of social and economic accountability. This is especially true of companies, which due to their exchange listing claim to be independent, being fully privatised and as such not a state-run enterprise. However, it is precisely these listed companies that often develop more successfully in economic terms than unlisted companies. The pressure of the capital market does not only have the necessary purifying power to create extremely sound businesses, but also the undisputed regulating qualities to achieve ethical, moral, social and thus also economic objectives that benefit the public interest. Consequently, companies will not be able to avoid an intense study of the topic of CR in the future. Transparency, communication and strategy will have to be orientated on CR.

Figure 2: The Conditions for Sustainable Growth



Source: F. Mostböck

3. Funds and Investment Companies whose Specialty is CR are Reality – Greater Awareness is a Must

The underlying concept is correct

At present CR is a niche topic within the capital market. In this investment niche, in which the aspects of social responsibility, corporate governance, ethics etc. take precedence, several providers already offer specialized funds or their entire business operation is orientated on CR. Naturally, large volume fund companies and pension funds - mainly Anglo-American - are active in this area.

It is a long way to the goal

The significance of CR will undoubtedly grow. We may assume that due to growing environmental pollution, the fundamental perception and acceptance by society of CR-driven investment products will rise overall. Equally, subjects relating to ethical questions stand to gain importance in a globally oriented, transparent information and service society. This tendency will not remain confined to environmental interests. As a result of existing regional imbalances in the area of human rights it will also find its way into the correct management of companies in general (corporate governance of companies as well as in policy), in employee satisfaction with working conditions and also in the course of future labour market policy. Therefore, the inception and issue of socially compatible and ethical investment funds and other products (share baskets, investment certificates, options etc) will continue, and as a result, the topic of CR will be even more widely discussed.

It calls for concrete measures

The actual application of the principles of CR has yet to be initiated. The issue exists and its message is understood. The correctness of this approach is not questioned, especially on the capital market. However, the widespread realisation among exchange-listed companies has yet to take place. The following section will look at specific approaches to the individual CR topics to gain a greater understanding of the facts and to foster the implementation.

4. What are the Benefits of CR?

CR is not a marketing gag

CR benefits companies and promotes national economic prosperity. The active application of CR gives rise to a series of advantages and will produce additional benefits for companies. Ultimately, it serves the general good of the people based on its broad global orientation. Moreover, there are without doubt marketing effects. At present, these are perhaps just a very pleasant side effect. However, CR should not be reduced to this.

CR leads to business success...

Differentiation creates competitive advantage. Essentially, companies are increasingly using CR activities to differentiate themselves from their competitors and achieve a competitive advantage resulting from their positioning as a company that acts responsibly. This competitive advantage becomes manifest not only in a better reputation, but ultimately it reflects the stakeholder aspects of growing consumer confidence in the company's products, while at the same time reinforcing loyalty and employee commitment to the company. Employees, who are motivated and highly committed to performance, are an indispensable prerequisite for listed companies. Companies are recognizing that overall accountability can lead to sustainable corporate success and as a result, boost corporate value.

...and higher value

Applied CR raises a company's value. On the capital market, the greater trust of stakeholders is clearly good for the share price over the long term. In this way, CR serves as a tool that raises shareholder value lastingly. A transparent and open communication strategy for investors is always honoured. In this context, it can be demonstrated that the use and the definitive implementation of ethical, moral and social actions and decisions enjoy a special standing. Specialised funds and investment companies regularly examine a company's commitment in this area.

Investors pay for CR price premium

Added value is not a pre-defined measure. Clearly quantifying the size of the potential premium on a share price of a CR-managed company is very difficult. As regards corporate governance, Mc Kinsey[1)] has prepared a report based on a survey, which quantifies the share price premium very well in this regard. Thus, over 80% of investors are prepared to pay a premium for companies that practice corporate governance. CEOs of international concerns who engage in global investor relations for their companies, expect investors to pay a premium on the share price of more than 20% on equity markets for companies that follow corporate governance principles. An even higher premium is expected for CR-guided companies, as CR comprises corporate governance in its definition.

5. CR – Vision or Reality?

From the vision...

CR frequently still exists only as a figment of imagination. The simple and definitive acceptance of CR has yet to become fully established. In fact, CR is still to some extent an imaginary asset whose definition and content in detail have only been grasped to a limited extent to date.

...through transparency ...

Quantifiable amounts are crucial for making assessments. On the capital market, everything needs to be measurable and replicable. A market trading equities, fixed-interest securities, corporate bonds etc. shows a steady flow of data that is analysed and used for calculations. The calculations are based on various standardised ratios, which are compared or projected into the future, and ultimately used as the basis for investment decisions with clearly verifiable figures.

1) McKinsey, Investor Opinion Survey, 6/2000

...to the real soft facts

Dream or reality? CR is real in the sense that the concept is defined and it therefore exists as a subject of further development. We are currently in a period of transition: the changeover from vision to reality. Why is this? Many soft facts are relevant for CR. Indeed, soft facts can be assessed in capital markets and feed into share prices through certain psychological elements. Being able to evaluate soft facts in the form of a financial value is undoubtedly one of the advantages of the capital market. It is good that an increasing group of persons are concerned with CR. However, CR is still a vision that must be turned into reality. The scope for global improvement and the potential is huge for applying CR fully. This is why CR is still partly a vision, as there are many open questions with regard to the assessment of the actual situation and the approaches that can be taken to shape quantitative and qualitative standards, and define benchmarks for the attainment of the company's goals. This report aims to provide a clear contribution to the possible approaches to encourage the application of CR on the capital market through additional ratios and defined problem areas and concepts.

Soft facts...

A process of categorisation is already underway. Investment fund managers and analysts differentiate between companies either very generally or within sectors because of their current CR activities. Companies are, for example, included or excluded from sustainability indices when they meet clearly defined criteria. The potential exclusion from such indices would trigger, for example, the need for an internationally active oil group to provide explanations to shareholders, especially when competitors with comparable business activities are included in the relevant benchmarks.

...should be taken seriously ...

Only free market forces have the power to make an effective valuation. Investors are the driving force for the further development of a company. The pressure comes primarily from institutional investors who in the above-mentioned one-on-ones can openly address problem areas and discuss them directly in talks with the management. One thing is indisputably important: The more investors become closely involved in CR issues, the greater the market pressure and the need for managers to provide explanations when they fail to meet the defined standards. In this regard only the capital market has a purifying effect in that it sanctions faulty management and awards premiums to management teams that operate responsibly.

...and flow into the price determination

We may state without bias that CR regulates itself through the efficient allocation of funds. Ultimately, profitability and the performance of stocks is what counts. In the case of CR, money has a strategically corrective power with a positive effect. Once again, this is proof that the capital market is very good at securing the efficient allocation of resources. It simply makes sense to let the free market forces resolve problems and open questions. The capital market is the only real alternative that works as a regulator in the sense of guiding the microeconomic and macroeconomic distribution of financial resources, but also with regard to ecological, social and ethical principles. CR will become increasingly topical in our ever more transparent social order (especially in service-based societies), but the concrete application of the standard will probably only become the norm in the coming decade.

6. Summary: The Capital Market and CR

Higher-ranking goals are to be achieved

CR can provoke and help to realise objectives that serve society and the public economy. The capital market is a medium for a multitude of conflicting interests and opinions and is therefore the ideal platform for the development and advancement of specific positive elements such as corporate strategies and strengthening the capital base of companies. On the other hand, it is also the best instrument for identifying and uncovering improper management practices for the common good of society. Markets are independent as well as incorruptible and cannot be deceived over the long term. Therefore, from today's perspective, the efficiency of the market is unrivalled and established beyond doubt. The capital market is the only alternative that offers the means for efficiently and quickly evaluating companies' economic and ecological objectives and behaviour as well as social, ethical and moral aspects. Only by fully considering these elements can national economies, and even more so, globally active companies develop. The application of CR principles enables Western, performance-oriented capitalist economies, whose companies plan to raise more equity capital through stock markets in the future, to efficiently achieve their social and economic objectives.

7. The Real Core Areas of Application of CR

A. The Ethical and Moral Aspects

Integrity of the management board...

Ethics and morality are the foundation. Ethical principles are the basis of any prudent, responsible behaviour for conducting a business properly and efficiently. This is not only true as regards the behaviour of companies, but applies, of course, also to the actions of all capital market participants. A number of guidelines have been drawn up to guide the ethical behaviour of the various types of participants operating on the capital market (code of conduct, best practice guidelines, etc.). Ethics as understood to mean the behaviour of businesses on the capital market that should be followed by all participants – on the supply and on the demand side – in the sense of give and take. However, ethical awareness cannot be imposed as a general rule. Concepts such as honesty, integrity, decency, credibility, appropriateness of business behaviour can usually have several subjective interpretations. In this case as well, the capital market provides help due to its transparency and now, in particular, because of the above mentioned major and long overdue self-regulating measures.

...creates confidence ...

Ethics must be given a more or less physical form. The senior management of listed companies must convey their scrupulous and honest business practices to their institutional customers convincingly in their often daily personal talks. Probably the only way to create a real basis for trust is through frequent (face-to-face) meetings. In any case, this helps to create a long-lasting client base (with shareholders). Trust is probably one of the most important elements in the financial industry. The management of a listed company should aim in every situation, however difficult for the company, to report openly about current business developments and the company's outlook. Should this trust be broken just once, it can take years to regain it. Investors place extremely high demands on their invested capital and expect the companies they invest in to apply the due care and diligence as well as the ethical and moral standards they follow in their investment decisions.

...in dealings with responsibility

CR and the Stakeholder Principle. In a globalised world, companies have increasing responsibility that extends beyond the company itself. Groups that operate globally are more aware of this due to the divergent local frameworks as regards the legal, economic and ecological aspects that affect their production sites and apply in their export markets. What is probably needed is a certain capacity for a wider perspective. This awareness is also heightened by the global stakeholder structure of groups (shareholders, customers, employees, suppliers). The self-regulating force of the capital market promotes the appreciation of the need for a better understanding of business principles and management over the long term. The goal of achieving business success is by no means being questioned and, of course, must continue to be the basis of healthy competition. Economically there is too much at stake here, and economic development that fosters growth can only be secured through free competition over the long term. With regard to the capital market this means that a philosophy, which is based purely on shareholder value – as practiced in some cases the US and Europe – and is often driven exclusively by the endeavour to maximize profits fast at any price, has its limits. A comprehensive stakeholder principle is indeed the exact basis for corporate governance and CR.

Concrete solutions and measures that need to be taken:

- 1. Only independence and integrity can assure ethical and moral behaviour

- 2. Mergers and takeovers must be reasonable and must be scrutinized in detail

- 3. The remuneration of managers should not be excessive

- 4. Trading and sales in government bonds issued by countries that wage war without an international UN resolution should be viewed with reservations

- 5. Compliance with a state-of-the-art code of conduct for global, transnational groups operating worldwide

B. The Ecological Aspects

Progress must be secured ecologically

The need for a greater commitment to the protection of the environment is obvious. Many companies are considering measures required by ecological necessity and how to communicate this fact through the capital market, and finally how to put these measures into practice. Execution plays a key role here, as the market evaluates performance. Announcements of measures are well and good, but announcements alone are not enough to achieve credibility. A company must undertake to improve precisely defined ecological issues, and then actually ensure that the proposals are implemented. Industrial enterprises are the principal players expected to take action, as their production lines release verifiable emissions and consume raw materials. Service companies are also increasingly devoting attention to this issue. The unstoppable progress achieved by civilization, and the fact that we need organised companies to realise this progress is undoubtedly the greatest factor of influence causing environmental damage. On the one hand, this progress should develop as economically beneficial possible. On the other hand, this means that future economic decisions must be reached as efficiently as possible.

Ecology has top priority on the capital market

In this context as well, the capital market probably plays the most important role. There is no doubt that companies – especially manufacturing companies – are responsible for a large share of the environmental damage. Many leading companies, especially in the West, are extremely aware of this problem. It is a good thing that this debate has been taken up earnestly by investors as well. Companies have no choice but to search for the methods of operating as environmentally compatible as possible. Decisions taken today by companies could very well have an enormous impact in the future. Efforts to simply remedy already existing environmental damages are not enough. Active strategies are required on how to prevent future potential environmental pollution. As already mentioned, strategies and future expectations can be measured and evaluated by capital markets. Those companies will see their stocks develop well that achieve targeted objectives. Polluters will be punished and their economic existence could even be threatened if their management does not implement the relevant, verifiable measures to counteract the problem. In my opinion, growth is fully compatible with environmentally friendly economic business practices. Overall, it is possible to achieve sustained growth through active environmental management driven by capital market opinion. Therefore, to secure the future of coming generations, solutions to environmental problems must be given top priority on the capital market.

Global groups have global responsibility

Although major corporations may seem to move only slowly, in fact, their decisions are critical for future developments and serve as models. Multinational companies have global competence, global information and global communication, but on account of their position in the limelight, their worldwide reputation is always at stake. A logical consequence is for these companies to assume global responsibility. Associations such as the "Business Environmental Leadership Council" are already at work and are involved in the documentation of environmental problems and their solutions. The high-capacity communication systems of our information and service society give companies with global operations and their management boards the tools they need to gain a comprehensive picture of the ecological demands. Concerns operating worldwide know very well that measures to improve the environment are good for business. Active contributions to protect the environment are very well suited to appeal to new groups of investors and customers, while raising employee self-confidence, motivation and corporate identity, and in this manner assure the attraction of key products and secure jobs in the future.

Pressure provokes alternative solutions

Alternatives for the future. Alternative, renewable energy sources will play an important role in the future to overcome dependence on fossil fuels, which pollute the environment. Solar and wind energy, hydroelectric and geothermal energy sources, energy production from fuel cells are promising themes for the future. Large, traditional utilities have recognised the signs of the time and are now investing, sometimes significant volumes, into these areas. The vast number of research and development activities in this field guarantee further progress towards a more efficient and cost-effective exploitation of energy from these sources. For example, in the automotive industry, diesel catalytic converters for all cars and trucks were enforced with the pressure from investors. Companies that fail to meet these challenges stand to see their stocks tumble due to the failure of management to take adequate measures. Automotive companies are often unrelenting in their treatment of suppliers, and investors can be equally unrelenting in their treatment of automobile manufacturers to make them adhere to economic objectives beneficial to the common good. Sustained growth can only really be achieved and secured if the future impact of a decision is considered when assessing the options. This must become the basis for responsible management today. We need visions: the capital market thrives on visions. There is no doubt that the goal must be real economic growth, while at the same time reducing the burden on the environment over the long term by exploiting the alternatives available to assure the prosperity and the quality of life for future generations. Policy-makers and the business sector are called on to initiate proactive plans. Countries and regions can create direct investment activity and attract companies to the capital market through transparent information policies.

Concrete solutions and measures that need to be taken:

- 6. A sustainable track record must be documented; short-lived marketing measures do not count;
- 7. All production plants must be included and their ecological impact documented;
- 8. Global, transnational groups must meet global, state-of-the-art environmental standards;
- 9. Any relevant ISO certification procedures should be implemented and documented;

C. The Obligation to Observe Human Rights

Responsibility is a fact ...

Human rights are not to be questioned. After the events of World War II, the global community began taking a deeper interest in human rights. International organisations such as the United Nations, Amnesty International and religious groups as well as progressive, global companies are committed to upholding human rights. Fundamental human rights, such as the right to life and to liberty, the right to freedom of religion, the right to freedom from ethnic discrimination and suppression, equal rights for men and women are no longer reserved for the wealthy or just for the Western world. A number of declarations have been drafted that define these fundamental rights and have been signed by the most diverse states and companies declaring their commitment to observe these fundamental rights.

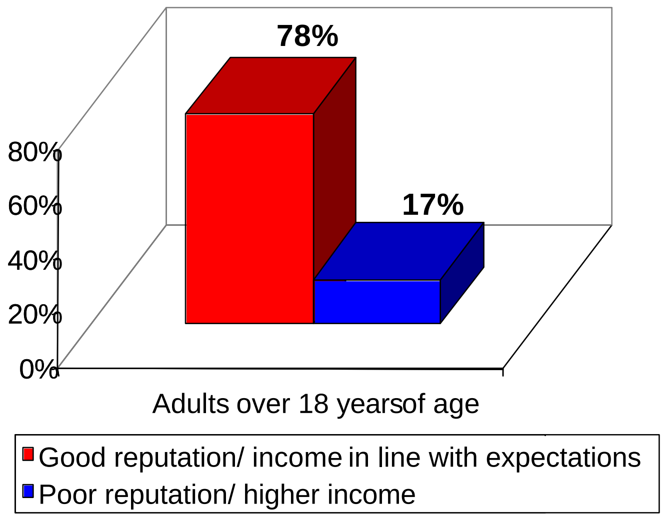
...vis-à-vis individuals

Human rights as a fundamental guiding principle for economic activity. In 1999, the United Nations drafted the Global Compact, which contains special guidelines on human rights and was generally addressed to the business community and transnational companies. At the World Economic Forum 1999 in Davos, transnational companies such as BP, Royal Dutch/Shell and Novartis endorsed these guidelines to document their support and to promote this view on the proper conduct of business in the global business community.

Stakeholders are also people

The commitment to uphold human rights is more than a merely symbolic act. "Information drives the market" - this insight has been proven true once again. Including human rights in a corporate constitution, and actively living and promoting this commitment has positive additional effects. One effect, for example, is the beneficial impulse to improve working conditions and the working environment at companies. The media addressed the subject of human rights to investigate it and raise awareness. The corporate images of companies who fail to observe human rights in some areas in those countries where they are active can sustain lasting damages. A bad image can be damaging for business, because customers start avoiding the products of the company. A bad image can also be damaging to a company by creating problems for recruiting staff, as such companies have a hard time finding qualified personnel. Who wants to work at a company that has a dubious reputation? Companies with poor working conditions usually have a higher average rate of employee fluctuation, and companies with good working conditions usually have a staff with a solid education and high degree of commitment. This lowers the costs of further education and training. Some transnational companies which have declared their commitment to human rights are Disney, Heineken, Royal Dutch/ Shell and Nike. These companies have recognised that quality products can only be produced by motivated, well-trained employees, and that ignoring human rights would have a dramatically negative impact on profitability over the long term. Companies that respect human rights do not only generate value for their shareholders, but also create sustainable growth for the business and the employees.

Figure 3: Reputation and Image



According to a survey by the Cherenson Group, 78% of adult employees would rather work for a company with a good reputation than for a company with a poor reputation, even if the latter were to pay higher wages.

Source: Cherenson Group, CSRwire

Concrete solutions and measures that need to be taken:

- 10. Charters of workers rights guided by Western ideals are to be supplemented by the subject of human rights and to be applied worldwide as a standard for globally active transnational companies.

- 11. Compliance with these standards is to be documented in detail by country for the entire world.

- 12. Standards are to be established that ensure the fair treatment of all stakeholders.

D. Aspects of Good Corporate Governance

Security through transparent corporate management

Corporate governance raises shareholder value through self-regulation. Corporate governance (CG) creates a framework for good management practice for businesses and the correct treatment of economic accountability. CG is an issue that is advanced primarily by the impulses from capital markets and investors. CG literally stands for the "governing and control" of a company. Control is known under the conventional concept of the supervisory board, but CG goes far beyond the mere control of a company. CG is in fact a qualitative approach that helps to improve the measurable degree of trust and security as regards communication with shareholders and stakeholders, executive bodies (management board and supervisory board) as well as transparency in reporting. CG is clearly different from pure financial and accounting aspects, which revealed their limits by the latest after the hype of the so-called New Economy. Quality in the "regulation of security" is honoured by the capital market and increases shareholder value.

CG is a meaningful supplement to existing company law

US and UK vs. continental Europe? There are different views as regards the general organisation and management structure of a company under company law. The main difference to continental Europe in the Anglo-American world is basically the existence of a uniform board (supervisory board and management board, one-tier system), while in German and Austrian legislation the management board is assigned the task of running the company and the supervisory board is essentially a controlling body, with the two being separate from each other (two-tier system). We do not intend to discuss which of the two different systems works better. German and Austrian company law is certainly a very sound basis for the proper conduct of business and its control. The principal difference to the Anglo-American definition is that the non-executive board, which corresponds to our supervisory board, plays a role much closer to that of a counsellor, partner or coach to the executive board (similar to the management board in Austria) that runs the operations of the company. Therefore, in my opinion there is no need to seek out the better system. By enlarging the tasks of an Austrian or German supervisory board to include the coaching role of providing support – or even accompanying processes – for the different problem areas and themes (accounting, strategy, staff, etc.), it should be possible to provide the management board with a well-functioning and effective controlling and advisory system.

„Closer to the Corporate Heart“

Corporate governance is part of CR. The acceptance and the efforts undertaken to date in the field of corporate governance in the most diverse capital markets have grown considerably among investors and also companies. It has been recognised in the euro area that to build confidence on the capital market it is necessary to adopt international standards to reach all investors. Corporate governance is communicated externally in addition to the normal communication activities within the scope of the investor relations (IR) of exchange-listed companies. The principle applies: corporate governance moves investors closer to the corporate heart. This can only be for the benefit of the shareholders and must be as verifiable and transparent as possible, and fully in line with the goals of a modern information and service society. Only a prudent, efficient and correctly behaving and well-informed management can seriously aspire to higher goals like those of CR. As long as this is not recognised and corporate communication addresses only some areas of CR merely for marketing purposes, the company will not achieve sustainable success on the capital market. CR can only be understood as a complete package in which the various aspects overlap.

Concrete solutions and measures that need to be taken:

- 13. No automatic appointment of former CEOs as members of the supervisory board (non-executive).

- 14. The independence of the corporate bodies (supervisory board and management board) as well as of management board members is to be documented and should apply to 75% of the members (exclusive of the works’ council representatives on the supervisory board).

- 15. Appointing one and the same person to the position of CEO and chairperson of the supervisory board is to be avoided for reasons of credibility.

- 16. Stock option plans are to be designed with a long-term outlook and an orientation based on the principles of sustainability.

E. The Aspects of an Appropriate Working Environment

Employees are an asset

An appropriate working environment is essential for keeping staff motivated. The healthy constitution of a company is just as important as the physical and mental health of motivated employees who are ultimately responsible for the success of a company. The management staff of exchange-listed companies has long since recognised that committed employees are essential for effectively executing strategies. The staff is the off-balance sheet asset of a company. Companies that invest in the working environment and in the training and further education of their staff know that their profitability will improve sustainably over the long run. The creation of an attractive corporate culture and corporate identity are extremely important for the management and motivation of the staff, and constitute a key element of human resources policy. It is highly likely that this contributes just as much to strengthening a company internally as the company and its products contribute to its external image by launching specific marketing actions. In order to be able to sell a product, the internal packaging also has to be right.

Internal values create company value

The internal condition of a company is also of significance. Investors are interested in this aspect and know how to assess how employees are treated and if they are loyal to the company. This is taken into account as additional information in potential investment decisions and given due credit. The social competence of the management must be part of the management's leadership qualifications. When a company is managed rigidly in a technocratic and bureaucratic fashion, this is recognised as a negative soft fact by the capital market. Companies may be considered as not being very flexible or sluggish, and consequently possibly also as not very capable of change and innovation.

Coping with rising work pressure through flexibility

The requirements of workplaces are changing rapidly. The new technologies and the changing needs of consumers are increasing the willingness of employees to accept flexible working hour models. Internet applications, active use of e-mail communication and the possibility of video conferencing have not only changed accessibility, but also the basis for doing business. Conventional working hours like the ones that prevailed in the 1970s and 1980s in daily business have been extended or have shifted substantially. Part-time jobs, contracts to complete specific projects and the option of working at home are on the rise, and buzzwords like flexible working hours have become familiar. Flexible working hours give employers the possibility of motivating employees, and of course, depending on the needs of the industry, to shift working hours to an individual's most productive phases. This improves workplace satisfaction and generally helps to raise the output of companies. Flexible working hours increase the average number of hours of availability of a company: on average, other staff members from various time zones are at least available. This flexibility is appreciated by customers and investors.

Concrete solutions and measures that need to be taken:

- 17. Employees are an off-balance sheet asset and the best protection against a takeover

- 18. Establishment of a comprehensive workers' charter at companies and regular written documentation

- 19. Publication of standardised indices that allow the benchmarking of the internal situation of the staff

- 20. Detailed publication of further human resource ratios

8. Conclusions

Applied CR triggers greater prosperity

Active CR on the capital market will contribute to the common good. The economy today is characterised by easy access to information, rapid communication, the need for greater transparency, rising job requirements and globalisation. These trends confirm that the element of CR plays a significant role for the achievement of greater stability in macroeconomic and microeconomic terms. All of the new generation of tools contain a certain "marketing element" for raising the recognition rate in general and the interest of investors on capital markets. The benefits will, of course, exceed any marketing effects. By applying CR at the largest number of companies as possible, it will become feasible to ultimately attain a more efficient exploitation of resources, a greater awareness of people's stewardship for the environment and as a result entail a higher degree of prosperity in compliance with ethical, moral and social principles (corporate governance, human rights, working conditions, etc.).

Codes of good conduct for all levels

Increasing pressure to comply with a code of conduct. All participants who work professionally in capital markets will have to deal with codes of conduct in the future (fund managers, analysts, journalists, investor relations officers, auditors, etc.). This development is welcomed and absolute transparency will be demanded by the diverse channels of self-regulation. A capital market will only then be allowed to demand CR if it also complies with comprehensive moral and ethical objectives. Thus, securities supervision authorities will also have to meet greater demands and will gain significance.

Pressure to comply with CR must grow

Not enough pressure from institutional investors for CR – but enormous potential. As the function of the capital market as a platform for companies to raise funds is not being questioned, the only requirement is to improve the actual situation on markets in order to fully exploit the purifying economic power of capital markets. Only in this manner will it be possible to secure prosperity and the efficient development of the economy by assuring the willingness to perform in line with sustainability criteria. The pressure on companies from investors as regards CR is not very strong yet. However, the time is ripe now – precisely because of the many scandals like Worldcom and Enron, Swissair, Ahold, Parmalat just to mention a few – to exert even more pressure on all players involved to improve transparency and quality. Only through transparency in all aspects will the capital market be able to promote sustainable development and prosperity. The mechanisms to apply the market forces more efficiently already exist; what is needed is to substantially improve transparency in practice.

This article aims to encourage the discussion of topics of general interest relating to CR in order to turn a good vision into reality.

9. Details on the Solutions Proposed

A. On the Ethical and Moral Aspects

Ad. 1. Only independence and integrity will secure ethical and moral standards. Independence is indispensable for exchange-listed companies. Politics should not have any influence on stakeholders (governments, countries, etc.) in the appointment of executive bodies in order to document credibility to the market. This applies particularly when the free float listed on stock markets is more than 51%. In this case, the company is an organisation that has a majority interest in serving the needs of its investors on the stock market and is not a legal entity under public law. A company that is majority owned by a public entity is likely to be traded with the corresponding discount on the stock market. Nonetheless, only behaviour guided by integrity will be able to ensure compliance with ethical and moral principles. Credibility cannot be generally imposed by a rule. The degree of independence and integrity is assessed by stock markets based on the soft facts. The nature of a listed stock company is extremely important for the capital market and cannot be acted or feigned. Investors find it important to know whether a performance-oriented company can act free of coercion and is accountable only to its stakeholders.

Ad 2. Mergers and acquisitions must be reasonable and have to be examined in detail. The correct behaviour regarding accountability is the basis for deciding whether a merger makes sense in every case. Mergers and acquisitions must therefore be scrutinised in detail. Quite often, we may gain the impression that mergers and acquisitions are executed only for the purpose of attaining greater volumes of business and strengthening the position of the future managements. Moreover, the result of prior ideas arrived at with management consultants is frequently strongly biased toward reaching “deals” and thus relevant for the M&A business and for the bonus payments of individuals. Volume is important, but the underlying risk is often not expressed in quantitative figures for the companies carrying out the takeover. It is easy for the management to produce a PowerPoint presentation on the occasion of the planned merger. Recent mergers have shown that very often the results have been quite sobering and reveal that the frequently praised and quoted concept of synergy potential is scant or hardly perceptible. Realistically, the perfect fit is practically impossible to achieve. Whenever synergy is attainable, it is often only over decades and thus it is very hard individuals to quantify it directly due to the economic complexity. The analysis of M&A transactions of listed companies by financial investors on the capital market will therefore gain much greater significance. Furthermore, this will also apply to certain local takeover commissions. An additional fact to be borne in mind is that mergers and any substantial business expansions achieved through acquisitions are finite. No company – even those already globally active – can expand indefinitely over the long run.

Ad 3. The remuneration of managers should not be excessive. Large global groups have developed a tendency to pay their managers fantastic sums of money as annual remuneration. These sums are in no way commensurate with the reality of any even very highly performing capital market. The total remuneration sum can usually be broken down and understood by using the complicated payout formulae in the annexes in relation to the defined profitability ratios, but nonetheless, these sums should have maximum limits (caps) considering some of the amounts being paid. It would make sense to peg wages to the size of a company, as responsibility is directly related to the relevant company's size and risks. A grouping by market cap is done for the various categories in benchmark indices. A large share of the remuneration contingent on performance is desirable from the capital market perspective, and the relation to the current size of the company on the capital market (large, mid and small cap) should be very clearly defined. Remuneration amounting to, for example, EUR 100mn (or USD) or more is not understandable in relation to the various capital market ratios and in fact may be considered as having reached inappropriate heights. An exception could be made when the manager is the owner at the same time (earnings from dividends and price gains are, of course, possible without caps). In contrast, the following question also arises: "How much is responsibility worth and what should it cost?" One should consider, for example, that a gross salary of a total of EUR 5mn/p.a. in a highly responsible position is understandable and commensurate with performance. Salaries with extremely large bonuses that are far removed from reality also mean costs for shareholders. The sum of the remunerations of all management positions in the group (fixed, variable + options) cost a non-negligible share of the payout ratio. Overall, it would make sense to define salary ranges with maximum limits in relation to the traded value of the company. When companies are successful within their category (small, medium, large), they can orient salaries on the upper end of the range, but otherwise they should stick to the lower end. When company assets are destroyed at the expense of the shareholders, the management salaries of a mid-cap company, for example, could justly be lowered to a salary of the small cap category. In any case, a highly performance-linked remuneration in relation to profitability and efficiency ratios does make sense (especially vs. a peer group).

Possible reference salaries that can be derived from capital market facts:

Amount in EUR	Market Cap	Remuneration (all in)[2]
Small[1]	< 1,000mn	100,000 to 750,000
Medium[1]	1,000 to 4,000mn	750,000 to 1.5mn
Large[1]	> 4,000mn	1.5mn to 7.5mn

[1] Definition according to Standard&Poor's Indices, www.indices.standardandpoors.com. [2] Board members (fixed, variable and SOPs)

Another ratio that could be used is the relation between the average salary of the company to the salaries of the top management level. This is not a communist approach (it would be out of place on the capital market), neither is it an approach designed to promote envy. It is a legitimate approach to measure whether the relation of the salaries of the management board to those of the staff are "out of balance" or not. For example, in Austria top management earns on average around ten to fifteen times the average salary of the employees, while in Germany the figure is 20 to 30 times as much. In the US, heads of corporations earn more than around 530 times the salary of an average employee.[3)] Realistically, a level similar to the average in Germany of some 20 to a maximum of 25 times as much may be viewed as responsible and not excessive. At the same time, average employee salaries at a company should be compared as regards their relation to earnings (e.g. CIR=Cost Income Ratio) or if they are within the range of a peer group in the sector.

Ad 4. Trading and sales in government bonds issued by countries that wage war without an international UN resolution should be viewed with reservations. Many governments finance their budgets largely from the broad placement of fixed-interest government bonds. Government budgets also include the funds earmarked for defence and armaments. Financial investors and banks and other financial intermediaries must ensure that the purchase of such bonds or any trading and sales activities in such government bonds are scrutinised from an ethical and moral standpoint and are assessed as acceptable or unacceptable also from business policy and accountability aspects vis-à-vis stakeholders. In concrete cases, the Security Council of the United Nations will hold consultations whether a crisis calls for international action or a war is globally justified and necessary. Active trading and sales in the case of new issues of government bonds (by listed banks, insurance companies, corporate treasury departments, etc.) would have to be questioned in the event of a war being waged by countries that do not have any official sanction to do so from the U.N. Security Council (UN resolution).

Ad 5. Application of state-of-the-art codes of conduct to transnational group companies operating worldwide. Divergent local standards apply worldwide to ethical and moral objectives. Today, codes of conduct apply to specific professional groups in addition to existing legal norms due to several cases of abuse in the financial community. Codes of conduct will not be able to completely prevent market abuse or cases of compliance breaches, but the documentation of guidelines of this type and proof of their application can serve to confirm the commitment of a company to prudent management principles vis-à-vis stakeholders. Furthermore, any breach of a self-regulatory norm would have personal liability consequences for employees committing such breaches. In conclusion, the recommendation for transnational corporations is to implement state-of-the-art standards for fundamental ethical and moral principles within the company. Should a management board member or manager be proven to have breached such a fundamental principle, then the dismissal of such a person on these grounds should not include any type of golden handshake.

[3)] Der Standard, July 22, 2004

B. On the Ecological Aspects

Ad 6. A sustainable track record must be documented; short-lived marketing does not count. A company should be ecologically accountable in a manner commensurate with its production resources without risking its economic success. So-called sustainability reports should not be reduced to a meaningless exercise. Specialised investors and also the regular institutional investors will become increasingly sensitive to such issues and will start to examine such reports as to their plausibility and verifiable content. For example, the sustainability report of an energy producer will be minutely scrutinised as to the factual content of its source of energy and resources. The focus of the examination will be on the future treatment of such energy sources and the effective management decisions in this context. In reality, this means that the existence of a greater share of energy extraction from renewable energy sources will be given due credit and a larger share of thermal or nuclear energy will be viewed sceptically. It will become necessary in this context as well to assess the extent of the management's success in replacing non-renewable energy resources through strategic measures for the future. Usually, such decisions have a lasting impact and the core issue here is sustainability, and this is the perspective from which the application should be assessed. The development of change processes is therefore to be assessed and a policy of mere announcements will not be enough to achieve credibility with investors.

Ad 7. All production plants must be included and their ecological impact documented. Mainly, industrial manufacturing companies will be examined more closely than up to now due to their energy-intensive production lines. The volumes of emissions must be recorded, and ecological and economic progress achieved in the use of resources will have to be documented. It should be pointed out once again that for macroeconomic reasons the commercial success of companies should not be impaired. Progress and growth of companies are very well compatible with responsible and ecologically compatible behaviour. Nonetheless, any over-regulation or over-administration by public authorities should be prevented in advance. A meaningful system of regulation can become established in free and independent capital markets. A desirable side effect would be, for example, if the pressure from investors were to create a new interesting field of work in the consulting industry in the area of active reduction of emissions.

Ad 8. Global, multi-national groups must meet global state-of-the-art environmental standards. Documented and proven polluters, and companies that outsource production to avoid local environment protection regulations in order to be able to cause pollution without sanctions should be subject to the pressure of a transparent capital market so as to even put their existence at risk. Emissions do not observe national borders regardless of where they are caused, and finding a global solution to the environmental problems will become a top priority issue on the capital market. Therefore, transnational corporations should apply strict internal environment standards. Of course, a transition period must be granted to companies. Any genuine changeover is not feasible overnight.

Furthermore, management board members and management-level staff who have taken decisions that have been proven to have caused natural disasters, or have massively increased emissions without taking any type of countermeasure or have committed other similar blunders are to be made personally liable. This should include the dismissal from the company and exclude any golden handshakes.

Ad 9. Any relevant ISO certification procedures should be implemented and documented. Environmental management systems can be effectively documented externally, for example, by certification according to EN ISO 14001. A company that has implemented an environmental management system will be able to achieve a competitive advantage on the free market as well as other economic and ecological objectives within a defined framework. Competitive advantages should be attainable in free markets, firstly, in markets for the respective product by obtaining higher prices on account of the greater appeal of the products. Secondly, in the free labour market by creating relatively more attractive jobs at the company or sustainably securing such jobs on account of this effect. Thirdly, new customers and investor groups may be addressed in the free capital market, which would also secure the financial base of the company over the long term.

C. On the Obligation to Observe Human Rights

Ad 10. Employee charters guided by Western ideals are to be supplemented by the subject of human rights and to be applied worldwide as a standard for globally active companies. In the area of human rights, the greatest progress has generally been achieved at companies operating according to Western standards. This applies in particular to listed companies that have production sites throughout the world in different regions and countries and have justly come to feel the pressure from investors in the past few years. Some fundamental issues such as forced labour or child labour, contractual work relations, defined working hours, etc. should be regulated. The course of global competition, the inevitable liberalisation of certain sectors and the entailing emphasis on individual performance will require some adaptations in the future (working hours, collective agreements). The issue of human rights does not seem to have been implemented in full in each case. Subjects such as job discrimination (on the grounds of nationality, race, sex, religion or political affiliation) are extremely important and have definitely not been established in full, even at very international companies. Therefore, the recommendation can only be stressed: drafting of employee charters guided by Western ideals and the internal implementation throughout the entire group.

Ad 11. Compliance with these standards is to be documented in detail by country for the entire world. As regards the fundamental criteria (nationality, race, sex, religion, political affiliation, forced labour, child labour, contractual work relations, etc.), the most stringent criteria are to be applied worldwide within the transnational company and to be communicated externally. In the case of factors that could restrict competitiveness in some countries, the national regulations should and must be complied with (working hours, collective agreement wages, unionisation). Compulsory membership of employees in trade unions (local practice or at some companies) should be avoided (quasi forced membership of individuals).

Ad 12. Standards are to be established that ensure the fair treatment of all stakeholders. All private sector and listed companies are fully accountable to their stakeholders, but at the same time they should bear in mind their obligations of running a business in the meaning of a free market economy. We will not go into detail on unconditional, open relations with shareholders (investor relations) with respect to institutional and private shareholders according to the principle of "one share - one vote". The relationship of non-governmental companies toward their customers forms the basis for generating their own business success. Nonetheless, all potential customers (regardless of whether private or institutional, customers grouped by volume, etc.) – if they are part of the business strategy – shall enjoy fair and equal treatment. Origin and race are irrelevant. However, for compliance and money laundering reasons, criminal behaviour must be taken into account in an international context. This applies in this scope to employees as well (see Ad 10.). As regards suppliers, business practice should be in line with fair and free trade. Potentially competition-distorting and damaging business practices are definitely to be avoided. This shall apply above all to companies, which have a position approximating a monopoly or oligopoly on a global or regional and national level, and have the corresponding market power or market shares to take advantage or abuse this position in their purchasing practices.

D. On the Aspects of Good Corporate Governance

Ad 13. No automatic appointment of former CEOs to chairperson of the supervisory board (non-executive). Generally, there is no conflict in a former CEO or management board member becoming a member or chairperson of the supervisory board. On the contrary, these persons can probably contribute more expertise essential for the company than others. However, the automatic appointment should be avoided. Not every former member of the management board should be able to become a member of a supervisory body at any price. What counts is solely the track record, and this can be derived from the stock market performance. The period of observation for the track record should be at least the past three years. If the indicators are good such as stock price trends, development of ratios like ROE and CIR, etc. especially versus a peer group then nothing stands in the way of an appointment. However, should the fulfilment of the criteria be insufficient or completely lacking, the credibility and reputation of the company would suffer due to these negative soft facts.

Ad 14. The independence of the corporate bodies (supervisory board and management board) as well as of management board members is to be documented and should apply to 75% of the members (exclusive of the works' council representatives on the supervisory board). As mentioned in Ad. 1., independence is an absolute must. Independence vis-à-vis stakeholders must be documented in detail in order to be transparent for the market. Companies with a majority of shares listed on an exchange (over 51%) shall ensure their independence in line with the nature of a non-governmental company. Independence, a corporate and business policy based exclusively on factual arguments can guarantee correct behaviour in line with ethical and moral principles. The documented degree of independence is taken into account by the capital market in the form of soft facts. Transparency is appropriate here. For investors who desire a strong and performance-oriented company, it is important to known whether all levels of management and all bodies can act free of coercion on the free market and are accountable solely to the company's stakeholders.

Ad 15. Appointing one and the same person to the function of CEO and to chairperson of the supervisory board is to be avoided for reasons of credibility. The continental European two-tier management board system separates the management board, which runs the company, from the non-operational controlling body, the supervisory board. At first glance, this system seems better suited to create clear areas of responsibility and to avoid potential errors. The potential defect of the continental European approach is that the function of the supervisory board is limited exclusively to controlling. As mentioned above, German and Austrian company laws are certainly a very sound basis for the proper conduct of business and its control. The function of domestic (Austria, Germany) supervisory boards should be enlarged to include the tasks of consultants, partners and coaches for the management board in order to make a well-functioning and effective control and consulting of the management board feasible. Appointing one and the same person to the function of CEO and chairperson of the supervisory board (USA, Switzerland, etc.) is to be avoided for reasons of credibility. It is not an advantage when one and the same person plays more or less the role of consultant and controller simultaneously and controls him or herself in cases in which the principle of double checking would theoretically apply. An operationally active management board member (ideally 100% independent) can be controlled the best and most effectively by an independent supervisory board (ideally 100% in the total composition). It is clear as a consequence that responsibility for the operational implementation of corporate objectives lie essentially with the CEO and his or her management board team. For this reason, financial remuneration should be granted largely only to the operationally active bodies.

Ad 16. Stock option plans are to be designed for the long term and oriented on sustainability. Stock option plans (SOPs) play a significant role as a means of granting direct participation in the success of the business to staff. What could be a better and more efficient way of granting staff members participation in the development of a company than by giving them the rights to a share in the company's value. However, SOPs do not always have the best reputation. This basically very effective instrument has been driven in the past frequently by excessive greed for short-term gains and was misused in some cases. SOPs valid for a limited time and that usually do not require any own investments in stocks can foster, in the worst-case scenario, potential manipulations (e.g. quarter-on-quarter results) to keep the stock price artificially high. A SOP should therefore be designed for a period of at least one year (a period of two to three years is probably better with respect to sustainability). Furthermore, an SOP should be backed in any case by a direct investment in own stocks and contain several tranches and exercise periods over a period of several years (at least three). The exercise of a SOP should be linked to an above average performance vs. a peer group of comparable companies. First, this illustrates the longer-term sustainable success of a company and second, it effectively creates a bond with an employee for a longer period with a clearly performance-linked component. It also helps to promote a well-functioning interaction with the company and a more comprehensive understanding of the company an employee works for.

E. On the Aspects of an Appropriate Working Environment

Ad 17. Employees are an off-balance sheet asset and the best protection against a takeover. The healthy internal constitution of a company as regards employees is essential for the success of a company. For the sustainable creation of added value, the internal development of human resources is very important. At the same time, it is probably of greater importance that the working environment is adequate as regards the physical aspect (workplace), the psychological and mental aspects (professional skills, team work, image), and, of course, the financial remuneration (performance-linked). The last item listed does not necessarily have top priority – as often is assumed – among employees according to feedback received, but is frequently ranked behind the other two aspects if the first two are ideal. Employees are a crucial asset in the sense of human power. The recognition of this fact contributes enormously to the success of a company. The internal package must be right to successfully sell the product externally. Highly motivated staff that also owns substantial shares in the company is the best protection against a takeover. No strategic investor wants to acquire or make a hostile takeover bid for a company whose employees and management members have extremely strong ties to the company. A takeover would result in the loss of the core staff that represents the company's value and would leave an empty shell behind. No one can afford such a poor investment. However, at the other end of the scale no corporation would want to acquire a company with unsatisfied and unmotivated employees.

Ad 18. Drafting of comprehensive employee charters at companies and regular written documentation. Employee charters are an important element for creating a working environment that is as ideal as possible and for raising the actual value of the staff's potential. Therefore, at least once a year a detailed analysis of the development of an employee should be drawn up, giving descriptions of the job itself, the flexible working hours, the performance-linked salary, the management culture and strategic human resource planning and the overall outlook for the future formulated as goals derived from this assessment. In this context, upward-flowing feedback is a good tool that goes to the first, second and third management levels and gives an overview of the respective situations and presents stakeholders with a picture of the human resource situation.

Ad 19. Publication of standardised indices that allow the benchmarking of the internal situation of the staff. Indices that measure human ecological productivity exist. For example, the Human Work Index® (HWI) is such an instrument. HWI measures three dimensions of human ecological productivity: coping with work ("I can do it"), interest in work ("I want to") and working together ("I may"). HWI enables productivity analyses, health and social due diligences, data collection for balanced scorecards and professional and industry benchmarking. It is interesting that HWI can also collect data on psychobiological sustainability (coping with work vs. interest in work), psychosocial sustainability (working together vs. interest in work) and work-related fluctuation and health risks (quitting-the-workforce trend). HWI is therefore a suitable instrument for measuring human sustainability within a company, and it is recommended publishing the data in annual reports for the sake of stakeholder relations and transparency.

Ad 20. Detailed publication of further human resource ratios. In addition to collecting data to create a picture of the situation of employees and measuring it by an index, some specific human resource ratios should be published as well. These may be, for example, data on staff fluctuation by sex, age and average time with company; the general age structure broken down by sex and average time with company; data on internal rotation (flexibility in internal job switching mechanisms, retraining options, internal job markets, etc.) and the detailed recording and documentation of any job-cutting measures required (by work area, sex, age, average time with company).

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