

# Formation and Development of the Project Group "Ethical-Ecological Rating"

*Claudia Döpfner and Johannes Hoffmann*

## **1. Past history**

One day, three bank managers approached social-ethics professor Dr. Johannes Hoffmann of the department Catholic Theology, Johann Wolfgang Goethe University, Frankfurt. They inquired about a possible conference dealing with the issue if and how it would be possible to make profits on the money market – and also have a "clear conscience", i.e. decisions should be taken on the grounds of ethical criteria. These considerations based upon the fact that there were on the one hand ethically motivated investors, who faced these issues, while on the other hand there were institutional investors such as dioceses and holy orders that invested their money in commercial banks without having a clue what happened with it, e.g. did the money make profits in the armaments industries or was it invested in social institutions?

This conference took place from 22<sup>nd</sup> March until 24<sup>th</sup> March 1991 in the Evangelische Akademie Bad Boll. The topic was: "Clean profits. Ethical investments in dialogue." 84 participants representing absolutely different areas attended the conference, yet they shared their interest in the topic. Representatives of regional banks, commercial banks, alternative credit institutions, Ökobank, Südwind, ecclesiastical banks, self-employed financial advisors, EDCS, GLS-Gemeinschaftsbank, Börsen-Zeitung, Arbeitskreis Rating, Bundesverband Deutscher Stiftungen, Verbraucherzentrale Baden-Württemberg, Finanztest, Die Grünen Baden-Württemberg (Öko-Fonds), ecclesiastical and development-aid basis groups.

Aside from the exchange of experiences, fundamental questions concerning ethical-ecological investments were put up for discussion. The development of a subtly differentiated ethical-ecological set of criteria was considered the central challenge for a faster and at the same time reputable accomplishment of ethical-ecological aspects on the capital market. This opinion was shared by all participants; for the nation of poets and philosophers, influenced by the Kantian way of thinking, it seems inappropriate to apply only the so-called knockout criteria, which have actually been used effectively on the American market since the Vietnam war.

Against this background, moral philosopher Johannes Hoffmann was asked to form a project team performing the task of working out a subtly differentiated set of criteria, based on the grounds of theory and method, in order to assess enterprises and capital investments.

## **2. Formation of the project team "Ethical-Ecological Rating"**

Right after the conference in Bad Boll, Prof. Dr. Johannes Hoffmann and Prof. Dr. Gerhard Scherhorn held their first exchange of views. While the former reported about the conference in Bad Boll, the latter provided information about a conference in Berlin from 11<sup>th</sup> until 12<sup>th</sup> April 1991 with the topic: Compulsive shopping. Challenge for consumer work.

It became clear that a cooperation was in mutual interest and was finally made possible when the formation of the project team „Ethical-Ecological Rating“ (= EÖR) came closer.

Within the framework of the interdisciplinary project group "technical research", Johannes Hoffmann applied on 10<sup>th</sup> Sept 91 for a research sponsorship for 1992 by the State of Hessen for the formation of the project team (ATG 99).

In his application he set forth:

„... In a pluralistic society, however, we encounter quite a number of different ethical objectives, basically as many objectives as there are investors, who want to invest in ethical investments. Consequently it must be possible to identify ethical investments as such. Therefore we we have to set up operationable criteria.

So far, there are no ethical rating agencies in the Federal Republic, only in England and the USA. On the one hand, the existing American and British rating agencies should therefore be checked for the valency and safety of their ethical criteria, on the other hand, we have to develop our own criteria that fit the European market. Finally it remains to be analysed whether the introduction of ethical investments can only be realized via rating agencies or if ethical assessment criteria could also be integrated in the ratings of traditional agencies. The answer to this question is of vital importance in view of the acceptance of technologies in industry and commerce."

The application was granted; it was the starting point for the formation of the interdisciplinary project team "Ethical-Ecological Rating", brought into being by Prof. Dr. Gerhard Scherhorn and Prof. Dr. Johannes Hoffmann, and also supported by private donations.

Apart from the two professors Johannes Hoffmann and Gerhard Scherhorn the following contributors also participated or still participate in the project team: Dr. Bernd-Christian Balz, Bielefeld, investment advisor for the Deutsche Bank; Claudia Döpfner (since 1997), M.A., Frankfurt, Assistent at the field of social and economic ethics and also studying for a doctorate with Johannes Hoffmann;

Dr. Peter Grieble, Stuttgart, referent for financial services for the consumer advice center Baden-Württemberg e.V.; Dr. Claus F. Lücker, Krefeld, priest; Prof. Dr. Konrad Ott, Professor of environmental ethics at the University of Greifswald; Dr. Lucia A. Reisch, Stuttgart, consumer-affairs economist at the Hohenheim University and Dipl. Hdl. Dr. Hans-Albert Schneider, Frankfurt. Today, also the following contributors are part of our project team: Klaus Rainer Forthmann, München, NABU Bayern (since 1999), Robert Haßler, München, oekom research AG (since 1999), Thomas Schardt, Frankfurt, OFM (since 1999); Franziska Jahn, Frankfurt, Student; and Simeon Ries, MBA, studying for a doctorate with Prof. Hoffmann.

### **3. Public colloquiums**

In order to get into touch with potential interested parties and also to check the validity of our theoretical reflections with economic experts, we regularly held public colloquiums with lectures and discussions. On these occasions we asked experts from the investment sector, from enterprises, banks, research institutes and rating agencies to give lectures on their fields of expertise, so we could learn from their experiences. Our progressing knowledge we then presented in our project team "Ethical Ecological Rating" and held discussions with our guests from banks, enterprises, ecclesiastical organisations, environmental institutions, citizen's initiatives, universities and colleges.

Approximately 70 – 100 interested persons took part in each of our colloquiums which proves that our events meet with wide acclaim. Although most participants were from Frankfurt and the Frankfurt area, we also had regular guests from other parts of Germany and from Switzerland.

### **4. Meetings of the project team and the presentation of the first version of the Frankfurt-Hohenheimer guideline (FHG)**

After six all-day meetings which took place from 1994 until the end of 1995, we worked out the concept for a set of criteria to assess enterprises, capital investments and produces. Many attendants witnessed our presentation of the first version of the guideline on 23<sup>rd</sup> Feb 1996 in the Johann Wolfgang Goethe University, Frankfurt. More than 60 guests followed our invitation, among them representatives from banks, credit institutions, employers associations, rating agencies, environmental institutions, from churches and ecclesiastical institutions such as Caritas and Misereor.

We got the following results to work on:

4.1 The basic concept of the set of criteria with the dimensions environmental sustainability, social sustainability and cultural sustainability proves right. The explicit inclusion of the dimension „cultural

sustainability“ is vitally important for the transference to social and economical contexts. It emphasizes the fact that all technical and economical processes and innovations are social processes; they are controllable by the cultural arrangements that a culture developed. These facts remain so far widely unknown; in the interests of the ethical penetration of economic processes, `culture‘ and its potential of cultural arrangement should be emphasized and mobilized. It is not that we are at the mercy of the normative power of factual, economic, financial or technical developments. There is indeed also a normative power of a culture’s normative knowledge, which enables us to control economic processes that achieve and guarantee ecological and social acceptability.

4.2 The criteria are still incomplete and unfinished but already rather complex, which raises the question of manageability and user friendliness. Despite this fact the project team believes in its workability due to the following reasons: First, the set of criteria aims at the negotiation with ethically orientated investors on the one hand and ethically orientated enterprises on the other hand. Although both groups share a similar fundamental philosophy, they differ in view of their individual concrete preference of values. This is exactly where the guideline serves as instrument of negotiation e.g. for the investment advisor. The guideline and its range of possible value preferences help him to make the process of negotiation more transparent. Finally, the investor will make his decision from a few criteria, maybe 5 – 10, only. However, he gets to know the whole range of criteria in the course of the negotiation process. He develops an attitude towards them, thinks about them and therefore also changes his own set of values. Transferred to society as a whole this leads to a gradual, step-by-step change in the prevailing value preferences. So economic processes get increasingly penetrated by ethical decisions. Eventually this is also for the benefit of the economy, as its acceptance is then based on an ethical consensus.

4.3 Even if the investor’s evaluation process is finally reduced to a few criteria that lead to his decision, it helps to avoid decisions based on knockout criteria and achieves a high standard of ethical transparency for the negotiating partners as well as a higher degree of mutual respect, fairness and moral responsibility.

## **5. Revised version and public presentation of the guideline**

On 6<sup>th</sup> Feb 1996, Gerhard Scherhorn and Johannes Hoffmann filed an application for sponsorship at the "Deutsche Bundesstiftung Umwelt", which was granted by 17<sup>th</sup> Sept 1996. During a period of 24 months we received a total of DM 148 759.00, which helped us a lot to continue our project. At the same time we considered it as reward for the fact, that all members of the project team worked in a

honorary capacity during a period of approximately three years, each time holding all-day conferences.

According to the suggestions received on the occasion of our presentation we first of all revised our set of criteria in three successive conferences. The next three conferences were dedicated to a *vademecum* to the guideline. Besides we dealt with further contributions that were to be published in one edition together with the set of criteria. These comprised articles about:

- cultural sustainability
- theory and method of the value-tree analysis
- requirements for the organisation of a rating agency
- questions of assessment
- how to translate it into action

We were finally able to present the final version of the guideline in book form at the symposium on 10<sup>th</sup> Sept 1997:

*Johannes Hoffmann, Konrad Ott, Gerhard Scherhorn (Hrsg.) Ethische Kriterien für die Bewertung von Unternehmen – Frankfurt-Hohenheimer Leitfaden, Frankfurt 1997 (=FHL).*

Soon after the presentation, on 7<sup>th</sup> Nov 97, we met in Frankfurt in order to reflect on the discussions on the occasion of the presentation and to agree on further proceedings. We didn't want to leave it at the development of a set of criteria based on theory and method, but proceed to apply it to the market. Primarily we dealt with the question of the operationalisation of the dimension 'cultural sustainability'.

## **6. Application of the Guideline (FHG)**

The considerations and discussions, not only after the presentation of the guideline, emphasized that the project team "Ethical-Ecological rating" should also take care of the transference of the *Frankfurt-Hohenheimer guideline* criteria, should the guideline be used to enhance sustainability in a broader sense in everyday economic life. In view of this goal, two preconditions gradually took shape during our discussions in 1997 and 1998.

- On the one hand, the cooperation with a rating agency operating on the market was essential.
- On the other hand we became increasingly aware of the necessity to win ethically motivated institutional investors over to the use of ethical ecological ratings, also in order to gain their cooperation concerning the transference of the guideline.

Therefore we started looking for corresponding cooperators.

## **6.1 Cooperation with the oekom research AG**

For various reasons (see detailed report 'The formation and development of the project team Ethical Ecological Rating') the project team eventually cooperated with the oekom research AG during the pilot phase.

Regarding to the necessary knock-on financing Johannes Hoffmann could report already in may 1999, that different efforts towards financing with Franciscan have been successful. This was achieved through a conference with the theme "Alternative Investment" from 7<sup>th</sup> till 9<sup>th</sup> may in 1999 in Hofheim assisted by Claudia Döpfner, Peter Griebel and Johannes Hoffmann and finally at the German Catholic Council of Mission. There was reasonable hope to get the required six-digit sum for the financing of the pilot study and to receive as well some portfolios of orders, on the basis of which the pilot study could be realized. In a meeting of the project team on the 10<sup>th</sup> of December 1999 a contract between the project group EER and the rating agency oekom research AG was concluded and signed.

The conversion of the FHG into rating concept

After some preparation the concept of the "Corporate Responsibility Rating" (cf. chapter CRR in this book) was passed in the meeting of the 14<sup>th</sup> of January 2000 and the questionnaire of the rating agency with nearly 30 pages was finished.

The results of the pilot study show the CRR of 200 international enterprises were presented to the public in September 2000. These industries included retail, automobile, banking and finance, media, food and beverages as well as oil and gas.

The FHG, constructed by the project group Ethical-Ecological Rating and its application to the Corporate Responsibility Rating was specifically made for different cultures. The criteria of the FHG was applied to the German-Speaking countries. Therefore a special socio-economical and cultural context is related to the specific normative system of order for this cultural area.

Global interaction of enterprises in other cultures need consideration of indigenous cultural setting of values, but at the same time it is necessary in view of the globalisation and the internationalisation of the financial markets to apply our rating concept. Therefore we have to start a dialogue with representatives of other cultures to find out the different understandings of the term and meaning of "Sustainability" and if, in what way the criteria will be applicable to other specific contexts and markets.

To start the discourse with this question the project group organized a symposium from 23<sup>rd</sup> to 25<sup>th</sup> of November 2000 at the German Development Bank in Frankfurt am Main under the theme:

“Intercultural comparability of the ethical assessment of enterprises to criteria of cultural, social and environmental responsibility.”

17 experts from different cultures have been asked for a statement on the FHG and on the CRR-Concept with the aim of getting first answers to the intercultural applicability of the FHG and CRR. The results of the symposium were published in September 2001.

Lucia A. Reisch (Ed.): Ethical-ecological Investment: Towards Global Sustainable Development, Frankfurt a.M. / London 2001: Reihe Ethik – Gesellschaft – Wirtschaft, Band 12, Band 12, Frankfurt: IKO Verlag für Interkulturelle Kommunikation.

In addition the project team EER is dealing with the sighting, analysis and assessment of different ecological and ethical rating concepts (rating of the ratings) to create a better transparency for ethical investors with the increasing number of absolutely different rating suppliers.

The project group guarantees a permanent development, changing, correction and as well tightening of the FHG and the CRR. Because of the dynamical development of the market the FHG and the CRR have to adapt to contextual changes. In those circumstances the criteria does not lose any of its basic content. Infact the adaptation will focus on streamlining the basic principles of the FHG and CRR.

The project group EER enhanced the foundation of the associations for ethical orientated – private and institutional – investors. The association was founded in September 2000 called “Corporate Responsibility Interface Center” (CRIC e.V.) The association wants to present a wide platform to support the ethical investment in general and to give the investors specific support to integrate ethical criteria in their capital investment.

In this unit and in cooperation with a rating agency they are civil and socially organised to create a civil institution demanding continuous transparency in view while investing. Therefore you do not preserve an alternative of ethical-ecological niche products. You create on the basis of knowledge of cultural order serious impact on the financial markets due to moral-ethical motivation.

Furthermore in Berlin, January 2001, a forum for sustainable investment (FNG – Forum Nachhaltige Geldanlage) was founded analogous to the Social Investment Forums in the USA, England and some other countries. The FNG is a unit of financial service providers supporting – as a lobby – the progress of the general condition for the ethical investment. As a partner of the European Social Investment Forum (EuroSIF) the FNG is active on a European level: Associations like CRIC, FNG and EuroSIF produce an enormous thrust and can create a step-by-step changing in the economical and monetary structures on the capital market.