

CSR Index 2017

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1. Building Standards that Help to Activate and Accelerate All Stakeholders

Roland Schatz, Founder and CEO

Media Tenor

After sharing all the leading principles of the Global Sustainability Index at the Reputation Lab in Davos Jan 2016 the United Nations Global Sustainability Index institute Foundation (UNGSII) was finally registered in Liechtenstein in February 18 2016. Since then multiple teams begin working on the implementation of the three main pillars:

1. Development and testing of the index to begin releasing first results by April 2017 latest
2. Development of an executive education program empowering all stakeholders that have become interested in speeding up the processes associated with implementing all 17 Sustainable Development Goals (SDGs) - the UN's highly successful new campaign for delivering a universally acceptable - and measureable - campaign supporting and securing global and human interests which intends on delivering human resilience - long before 2030.
3. Ensuring that all of our outreach program partners support the UN's SDG implementation team run by David Nabarro to reach its challenging goal: to insure that by Dec 2017 at least two Billion of the world's population are aware of the resilience-accelerating SDGs, and how these 17 goals might make a difference to them on an individual, local, national and global basis.

1. The UNGSII Road Show: Introducing the SDGs as MDG Replacement and 'trusted' measurement

Over the last year our various teams have been participating with a “road-show” designed to clearly present to potential partners the UNGSII’s fundamental mission and team, and its requirements for developing the Global Sustainability Index. Our primary audience has been leading players in the finance sector, with visits including the Stock Exchanges of Africa, Asia, Europe and the U.S. Since our initial meeting three years ago at the Palais de Nations in Geneva, the strategic back testing we’ve aggregated around data and trends for resiliently managed companies and countries has generated significant excitement amongst our potential partners.

Occasionally questions have arisen as to whether *Sustainability* is still the right term to be used as the basis for our efforts, particularly given the challenges the UN faced with getting the MDG’s embraced by stakeholders across all UN member states. For those who have closely followed how the UN has introduced the 17 SDG’s as logical successor to the 15 Millennial Development Goals (MDGs), one can see that the UN has carefully and successfully positioned the SDG’s as far more about achieving explicit human and planetary resilience than just another ‘green movement,’

So what is the difference between yesterday’s MDGs and today’s SDGs?

People across all spectrums of humanity now understand that the question of resilience has little to do with something that might happen 10 years into the future, and everything to do with life now in 2017 - a time when fear of survival is slowly creeping into *all* of our psyches.

Increasingly, we appreciate that generalizations are no longer helpful - particular during an era when we are finally beginning to realize that the resources we depend on for our lives are not only increasingly limited, but in accelerated decline; and that our increasing dependence on media and internet consciousness has made way for massive and destructive delusion - and a profound challenge with identifying *the truth*.

In 1999, when Kofi Annan and his team tried to implement change by bringing every country on board with the MDG's and their 15 reasonable but theoretical targets, what diplomats and administrators perceived was a number of idealistic memes that ultimately equated to three basic concepts that would be nearly impossible to actualize or measure:

1. The reasonable management of resources, these including, but extending beyond, water and energy.
2. The anticipation of mid-term growth via partnerships.
3. The Understanding that there is only one world, divided across five continents and 195 countries (but still, one world).

But the recent history of mankind delivers the story of humans aspiring to achieve the impossible as they ignore the basics: instead of drinking milk they enjoy alcohol; instead of respecting the law of gravity they aspire that all of us fly. Relegating the limitations and laws of logic to the rest of the world, folks like Bill Gates, Steve Jobs, Serge Brin, Jimmy Wales and Mark Zuckerberg have been extremely successful in making the majority of humanity believe that the invention of the Internet has delivered a second planet with limitless resources and unstoppable beauty - and new rules which defy the fundamental and ethical physics of history.

Accelerating as a phenomenon during the 1990's, companies no longer had to prove that they had a product to exist and achieve a great valuation. Indeed, no longer did they have to prove they would have clients paying for these products in order to raise tens to hundreds of millions of dollars. Irrefutable fundamentals and truth no longer mattered for US stock market-driven economics. Indeed over the last 30 or so years millions and billions of dollars began moving between investors and entrepreneurs without compelling proof of concept and business model.

The fact that it was during the very first year of the new millennium that this increasingly noxious bubble had its first explosion, causing tremendous damage to individual investors, cities and

countries seems to have been missed by most. Worse, this stock market crash of 2000-2002, causing the loss of \$5 trillion in company market value,¹ didn't even lead to a fundamental debate as to whether or not Business School driven logics still work. People continued to pay for Microsoft products, even as companies like Microsoft continued to refuse to accept fundamental principles, for example, that clients shouldn't be used as beta testers (without a refund or a clear warning to same). Nor should any client be kidnapped by market momentum (e.g., "everybody" is using this product, so trying to operate on alternatives literally meant losing business).

One might have assumed that it was the second Financial Crisis of 2007-2008 that began to trigger a more pragmatic appreciation of verification. Happening only a few years after the first, the second collapse of the financial sector, delivering the fall of Lehman Brothers amongst many others, seems to suggest that the world should begin to rethink the commercial principles upon which it had been trying to operate.

Indeed, this second crisis proved to be even more intense than the first, triggering an intensive series of domino effects that, many economists agree delivered the worst financial crisis since the great depression of the 1930's.² For many, the onslaught was too overwhelming to deliver any opportunity for robust reassessment. Indeed too many countries seemed to go the opposite direction, retreating further into the same levels of historic miss-management that create crisis in the first place.

¹ Gaither, Chris; Chmielewski, Dawn C. (July 16, 2006). "Fears of Dot-Com Crash, Version 2.0". *Los Angeles Times*. Retrieved March 9, 2013.

² "Two top economists agree 2009 worst financial crisis since great depression; risks increase if right steps are not taken". *Reuters*. 27 February 2009. Retrieved 10 November 2015.

As we left the first decade of the 2000's, trust in basic business principles, our financial industries and the government leaders defending them were in deep decline. No longer believable were the politicians willing to try to initiate the essential global discourse as to whether or not the existing standards by which we do business are still robust enough to carry our societies - and the future of our children - forward in a worthy manner.

The experience of two sequential catastrophic crashes within less than a decade, a painful history that was more or less shared across all continents, forms the background from which the UN Global Sustainability Index Institute Foundation (UNGSII) was born, and acquired its mission. It also defines the UNGSII's primary mission - regardless of whether it is view via the filter of ESR (Corporate Social Responsibility) or ESG (Environment, Social and Governance); the delivery of highest credibility data and associated measurement relating to all SDG-centric facets related to company - or country - resilience.

Considering credible data, the question is immediately raised: can we trust the data we receive, and the management we interact with, from those countries or companies whom expect our trust as clients, shareholders or voters? For the UNGSII three pillars will provide transparency:

1. How do these institutions communicate for themselves in legally binding documents (for listed companies, this means annual report and the transcripts of quarterly road shows; in the case of countries, this means the Presidents State of the Nation address and their reports to the supervising bodies such as IMF, OECD, Human Rights Commission?)
2. How are the opinion-leading media such as the FT, WSJ, MINT, Financial Mail, Handelsblatt and others writing about target institutions and the information these institutions share about themselves or others? And how is the Primetime news from networks such as the BBC, CBS, CCTV, TVE, ZDF, etc. informing their audiences about these institutions and their developments?)

3. How are academics and NGO's reporting on these institutions? What are the results from on the ground polls among workers, contractors etc., and how are they presented?)

The results of all three of the above independent sources of information area are analyzed for each of our target entities, then typically published both as papers, and on the UNGSII's website, on an ongoing basis. Our intent is to empower everybody to clearly understand both the source of the data (via legally bound entities), the robustness and nature of the data being shared by the target company, and the target company's status.

One of the ways we publish our outcomes is via charts that position companies or countries on either the left or right side of a continuum of entity resilience. Those on the left have typically delivered insufficient data related to resilience metrics over the last 12 months, and in anticipation of the next 1-5 years. Those increasingly to the right have clearly explained, with examples, how they are running their company or country in line with, for example, the 10 rules defined by UN Global Compact (e.g., no child labour, no corruption, etc.), to what degree they positively (or negatively) impressed journalists, academics and/or NGOs that they were operating in line with their own statements and documents.

The UNGSII's website will not judge whether or not a company or country is literally acting according to CSR or ESG principles. But it will highlight whether or not there target entities are delivering robust information across each of the resilience criteria.

Our work includes a tremendous amount of research, as all Annual Reports, all transcripts associated with quarterly road shows, all texts, and TV reports must be analysed in a scientific way. Further, all results from academia and NGO's needs to be transformed into the same coded process. UNGSII was formed of the question: by what other means than the above could we provide full transparency, and thus, begin re-earning the trust?

More than just resilience data: a one-stop opportunity analysis dashboard

In addition to the SDG-powered resilience continuum, there is other data that UNGSII mines of relevance to decision makers. Almost once per quarter a company's board members typically will determine whether or not to start, continue or close direct foreign investments. When making such decisions a number of criteria come to play.

One of the most relevant is the question of corruption. It makes no sense to sign contracts with partners based on commitments and opinions that can change on a whim. Transparency International, the World Economic Forum and other global-facing institutions have devoted an impressive amount of research to fight this biggest of all obstacles facing resilient entrepreneurship - inauthentic agreements. Scientists have commented that the world community could only once afford to raise nearly \$1 trillion required to bailout the finance institutions post the second crash.

We are also fully aware of the growing strain on governments and other sources that to some degree finance community obligations such as schools, healthcare, emergency services, public pools, etc.

At the same time we must all realize the magnitude of loss we are paying to corruption relative to the size of the financial industry bailouts. According to the World Economic Forum (WEF), 5% of the world GDP, or \$2.5 Trillion, is lost yearly to corruption. The World Bank says that at least \$1 Trillion is lost to global payments for bribes. The more these numbers become available and transparent - for example via UNGSII analysis, and the more these numbers are available via our breakdowns by company, country and industry, the more the address to the damage of corruption becomes part of C-level decisions.

Countries facing too a prominent position as dishonest within Transparency International or WEF's corruption ranking are under severe pressure. But those countries making regular headlines in context with corruption are harmed even greater, because it becomes for more challenging for to attract foreign direct investments - even if few lenders openly state that their no-decision is based the ongoing headlines of the FT, MINT or The Economist.

Good management is always taking factors such as corruption and media outcomes into consideration, with the most honest companies and countries realizing the greatest opportunities. Thus a website providing these kinds of data that are easily digestible at one glance becomes a valuable asset to all. This is particularly true for reformers in each country whom are working hard to reduce corruption, given that such indices help their argument. Without credible facts and figures, ethics-driven argument for management change remains a huge challenge.

A new source for analyzing global corporation credibility

Before moving on how this database will provide value to individual investors looking for reasonable information on stocks there is one other facet that is key to both national and corporate investments. As Mathias Vollbracht highlights in his chapter, the intensity in which the finance sector was negatively framed in the Wall Street Media regarding its status on regulation has continued its 8-year stretch well into 2016. Already, by 2014 nearly every fourth statement quoted an analyst addressing banking challenges with ESG principals.

As in the decades following World War II little awareness has been devoted to the fact that not all humans are acting according to the fundamental principals of either their constitutions or their laws. As long as both companies and countries are lead by humans it shouldn't come as a surprise that such a percentage of dishonest humans should also be reflected in both private and public sector outcomes (including in the courts), and further, that such dishonesty - however framed in the context of legal structures - is typically going to be followed by robust reputational and trust consequences.

In April 2017 the first results of a new, far more comprehensive analysis of the legally binding documents of the world's top 300 listed companies, the world's 100 largest listed companies per each continent, and the world's top 200 family-owned companies per each continent, will be published on the UNGSII website.

The first test for the UNGSII credibility analysis tool was with the developer of a new financial industry terminal interface called

“Wealthbook.” Similar to the interfaces used to deliver data via Bloomberg, the test demonstrated that this terminal was able to incorporate the UNGSII data into their offerings in a manner that would not only highlight the stock price as red, yellow or green depending on whether its stock price was falling or growing, but also, highlight the company brand red, yellow or green depending on how valuable their data disclosing is according to their achievements regarding the 17 SDGs.

A further filter was added that allows a user, for example, the UN Pension Funds, to track down all stocks according to this red, yellow or green designation - giving those in charge an indicator as to whether their investment decisions are in line with the principles by which they wish to see their assets managed.

Several meetings took place to positive reception in 2016 in order to offer these new data filters, both to the UN Pension fund managers, and to other institutions such as the Vatican and others that have expressed commitment to ESG and the SDG principles.

2. Developing an executive education program to further the SDGs, ESG and Resilience

UNGSII has developed an Executive Education program to further the adaptation of both the SDG's and other 21st century resilience fundamentals, and the associated values, within global corporations and institutions. The program has been developed specifically for practitioners who don't have the time to spend a full year at university, but who are looking for a tailor made program offering the best of two worlds: (1) quality access to the best academics across all relevant departments of science - and multiple of the world's leading universities (as no university today is able to cover all expertise related to deploying the 17 SDGs and their 168 detailed sub-targets, and at the same time (2) quality access to those in charge of hosting the SDG-deployment processes within both the UN itself and her magnificent partner institutions.

UNGSII is offering potential candidates four condensed master class sessions, each as a one-week seminar. During the mornings

each selected class of MBA students works together with Scholars from Harvard, Oxford, Hamburg etc. to learn the latest standards in regards to criteria, metrics and implementation techniques. In the afternoons “speed-dating” meetings for all participants are facilitated to give each educational candidate personal contact with each of the experts working for the UN in Geneva, New York, Bonn and/or Vienna.

The master classes will take place at the UN’s Palais des Nations in Geneva, the headquarters in NY, and at the UN hubs in Bonn and in Vienna. Thanks to UNGSII partner UN Academic Impact the unique networking opportunities will include a total 1300 universities as potential partners for this program.

In order to ensure the highest quality outcome for candidates none of the class groups will exceed 30 participants per class.

Educational Partnerships - WIPO

Part of UNGSII’s strategy for force multiplying its impact is to partner with related partners with existing and relevant global reach. By the summer of 2016 UNGSII leadership had already begun participated with some of the world’s leading universities by teaching across multiple summer university programs around the world. The honorary president of the UNGSII foundation, Michael Moller, was recently invited to Oxford University to initiate a lecture series on the SDGs that will be followed by a series of SDG-Lectures across other universities. UNGSII’s university partnership program will be aggressively developed for global impact.

More recently we were approached by the WIPO (World Intellectual Property Organization) to help them develop a teaching program for empowering entrepreneurs across their 272 African Centers. Their program’s goal was to help these entrepreneurs not only better understand the principles of doing business, and further, how to take advantage of the WIPO’s unique aggregate knowhow, but also to learn the purpose of the SDGs and how their implementation can contribute to the bottom line of every company, community and country

We were also approached by a group of academics and corporate leaders seeking to find a solution to one of the greatest challenges facing the UN: how to educate and implement the SDGs across MENA. Today over 100 Million young people across the MENA region are education-challenged. How to pursue education when survival is such a challenge? How to leading a self-responsible and meaningful life - when so many options lead to the bottom?

While at least two challenges seem predominant: (a) the region's young people lack nearly all necessary qualifications to contribute to the 21st century digital economy, and (b) as Muslims, these job- and meaning-yearning youth are perceived as a threat to the world, Leading institutions are now taking responsibility and have joined these academics, the UNGSII and others to co-develop an initiative that might make a difference by giving each of these 100m young women and men hope that they might create their own foot print not only in the sand, but globally.

Across 2016 the United Arab Emirate University's (UAEU) Center of Entrepreneurship and Innovation has partnered with leaders across diverse sectors of life from all continents to create a realistic roadmap for producing *The Pavilion of the 100 Million Stars* - MENA's Millennials. Prof. Nigel Chabrak tested a program designed by Prof. Andreas Heinecke (academic advisor to UNGSII), and one of the world's the most experienced Social Entrepreneurs) and his colleagues Prof.'s Michele Andreaus and Filippo Addarii to offer educational programs of all types to the youth in the MENA region. The goal of this program is to give these 100m bright stars perspective, tools and pathways towards becoming entrepreneurs that might develop and implement SDG-resonant innovations that helps deliver a better life across both the MENA region and beyond.

The next EXPO 2020's Pavilion of the Millennials may become a wonderful platform for promoting resilient projects that prove to the world that every individual on the planet including all those from MENA, has the potential shining to become a shining star, firmly guiding others to the next quality oasis as they increasingly manifest their own confident brilliance.

Finally, UNGSII is equally interested in reaching tomorrow's citizens. During Q2 2016 we partnered with the first session of Kofi Annan "Ambassador of Hope" School competition in Vietnam. Several schools had applied to run the program as class-work, giving children starting at the age of 12 the chance to present their best ideas as to how their country could become a benchmark to the world by being the first to successfully implement at least one of the 17 SDGs. The winning teams will present their results at UNGSII's annual Global Goals Conference taking place every year in early December.



3. Accelerating *all* stakeholders

As the Sustainable Development Goals have turned out as the greatest success of the United Nations since the world leaders got together after World War I. Realizing that our planet needs an overarching entity supporting and securing global interests, both the UNGSII Foundation, with its expertise in developing, credibly measuring and executing the SDG principles, and its partners, have agreed to join forces to deliver a variety of SDG-promoting campaigns, including both a yearly December conference, and an Award event honoring those heads of states, corporate leaders, educational institutions, media and activist celebri-

ties, whom have helped measurably accelerate the greatest progress in implementing and promoting the SDGs.

Global Goals Conference

Inspired by the growing mainstream adaptation of the SDGs in a very few short years, seven governments have already each mandated the implementation of the SDG principles across their infrastructure projects (ea. valued at \$12-16bn, for an aggregate of \$100bn in SDG commitments). This commitment has already provided enough concrete best practice cases to power a first Global Goals Conference (GGC), to be held in December 2017, to which all the world's heads of states, global corporations and research institutes will be invited to understand and embrace these examples as part of greater humanity's quest for greater political, financial and social ROI.

The GGC will be organized as both breakout networking and plenary sessions celebrating the award-winning heads of states, entrepreneurs, schools, universities and media players who have achieved the most in regards to implementing the 17 SDG's since their birth in 2015. Videos, books, and teaching material will be provided to all participants, as well as the chance to meet the representatives of the 2017 Ambassador of School competition. Each participant will also receive an individual progress report, including an evaluation of their reputation footprint: how well have they managed to communicate their projects within the opinion-leading media. In order to optimize the participation of global thought leaders, the conference will be arranged as a "rolling" event.

Aligning all of these initiatives under the umbrella of the Global Sustainability Initiative will not only generate huge synergies but also make sure that all efforts are focused on one common goal - the development of one generally accepted CR reporting standard. This will become the milestone overcoming the biggest remaining challenge: The issue of intangible assets in accounting and integrated reporting. Research suggests that 50% or more of corporate value is attributable to intangible assets. At the same time, the ability to incorporate intangible assets in current ac-

counting frameworks appears to be limited and hence, the value relevance of accounting information has tremendously deteriorated.

The GSI has the potential becoming a well-designed tool helping to overcome this issue and foster integrated reporting as it provides for a common sustainability reporting standard - acknowledging that environmental, social and governance (ESG) factors account for a substantial part of thus far un-disclosed corporate value.

There is no other institutional body than the UN that has the power and credibility to bring all involved stakeholders to the table in order to align interests and overcome the limitations and shortcomings of CR evaluation systems currently in use.

2. Geopolitical Risks Distract from the ESG Agenda

Mathias Vollbracht

Media Tenor

(1) Mixed signals after COP21

Twelve months after the UN conference on climate change in Paris (COP21) it is fair to draw a first balance and ask what has been changed or where there are clear signs of progress. There has been clear momentum around and in the aftermath of COP21. Here is some evidence:

- “Stranded asset” was a term often used in discussions at the Paris meetings signaling an urgent need for action by investors to get rid of investments that are likely to lose their value along a global climate protection agenda, e.g. fossil energy exploration and technology. Allianz, one of the largest global investors, announced to phase out financing of coal-based business models.³ Blackrock, another global asset manager votes for working with corporate management teams of the biggest polluting companies to utilize the capacity for improvement.⁴

³ Allianz is phasing out coal, press release 11/25/2016, https://www.allianz.com/en/press/news/financials/stakes_investments/151123_allianz-is-phasing-out-coal/

⁴ The price of climate change. Global warming’s impact on portfolios. Blackrock Investment Institute, October 2015, <https://www.blackrock.com/corporate/en-mx/literature/whitepaper/bii-pricing-climate-risk-international.pdf>

- The forthcoming EU regulation on extended company reporting led to frameworks like the German Sustainability Codex presented in summer 2016 at a high-profile conference. From 2017 on, companies with more than 500 employees in the EU are requested to report non-financial information along with financial reports. As the EU states:

“Large public-interest entities (listed companies, banks, insurance undertakings and other companies that are so designated by Member States) with more than 500 employees should disclose in their management report relevant and useful information on their policies, main risks and outcomes relating to at least

environmental matters,

social and employee aspects,

respect for human rights,

anticorruption and bribery issues, and

diversity in their board of directors.

There is significant flexibility for companies to disclose relevant information (including reporting in a separate report), as well as they may rely on international, European or national guidelines (e.g. the UN Global Compact, the OECD Guidelines for Multinational Enterprises, ISO 26000, etc.).”⁵

The recent 2016 European SRI study sees a significant increase in responsible investment, not only in equities, but also in “green bonds”. It claims based on a survey, that “exclusions remains the

dominant strategy at over €10 trillion, covering 48% of the total of European professionally managed assets.” A plus of 22 per cent compared to 2013.⁶ However, it needs to be highlighted that the most common types of exclusions are weapons, tobacco, nuclear energy, pornography and alcohol. One can clearly argue to what extent the exclusion of those industries and stocks already marks a significant contribution with regard to Environmental Social and Governance (ESG) principles. Nevertheless, the SRI report documents progress in other fields of sustainable investment as well.

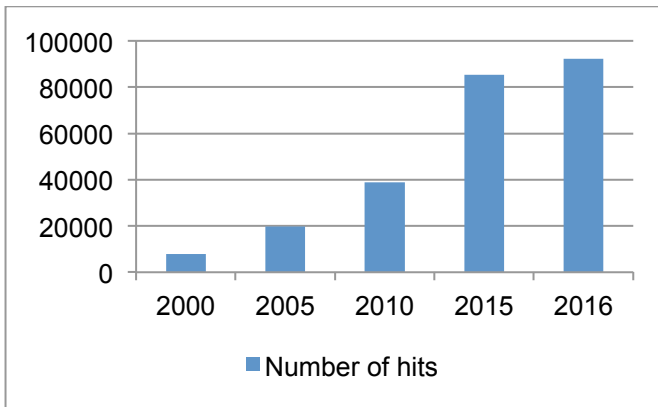
A New York Times article reports that “index provider MSCI’s ESG index and research revenues have been growing at 20 per cent annually to top \$44 million this year, making the segment the firm’s fastest growing business.”⁷

A number of studies launched in 2016 confirm the impact of ESG factors on equities and bonds. A comprehensive overview is listed in Harvard Business School professor Bob Eccles “November Integrated Reporting Newsletter: Sustainable Investing, Trends’ Reports, Fiduciary Duty, Conceptual Frameworks” (sent Nov 29, 2016). Last but not least the perceived relevance of ESG criteria can also be measured in the rising interest of academic scholars providing in-depth insights on the relation of performance and ESG measures as well as the interplay of ESG measures with other criteria.

Google Scholar™: Search results on ESG

⁶ Eurosif European SRI study 2016, page 7.

⁷ New York Times online 12/14/2016: Investors Sharpen Focus on Social and Environmental Risks to Stocks



Basis: Search results Google Scholar TM (Environmental AND Social AND Governance AND performance) without patents and citations

So is everything on track towards a more sustainable future? While some trends seem to display higher emphasis on sustainability in decision makers' priorities other indicators show mixed signals at best. Anecdotal evidence might be taken from a Google Trends™ search showing that the search volume for "Stranded Asset" is back to one third of where it was during Paris last years. And the recent rise in oil prices is said to boost stock markets around the globe which means investors still believe in "black gold."

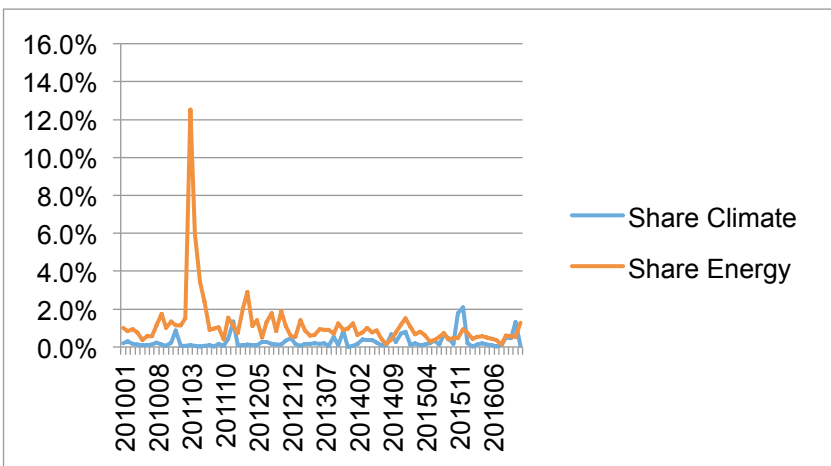
Google Search Trend (Stranded Assets) Dec 13, 2015 - Dec 12, 2016



Basis: Google Search Index

In fact, awareness of energy and climate issues on international TV news hasn't reached the awareness threshold for a global audience in recent years except for a few spikes.

Share of coverage on energy and climate issues in international TV news 1/2011 - 12/2016



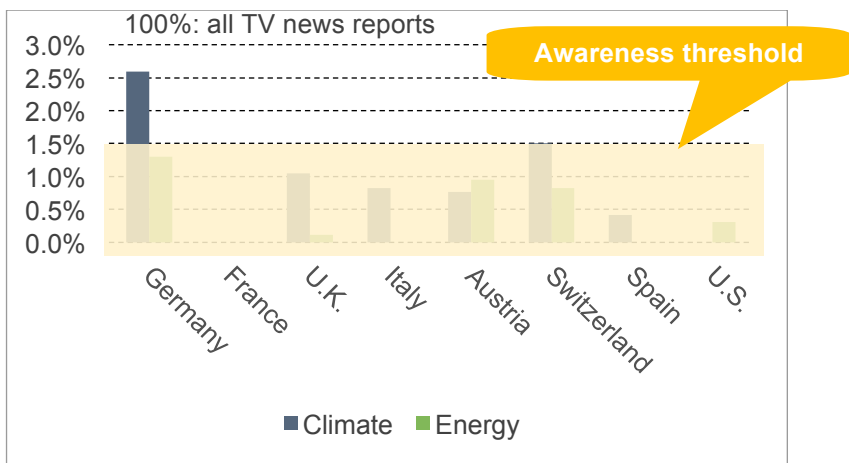
Basis: 737,431 reports on protagonists in 13 international TV news shows from the U.S., the U.K., Germany, France, Italy, Spain and Switzerland

The diagram displays a peak in media interest regarding energy topics around the Fukushima accident. Awareness surpassed the awareness threshold of 1.5 per cent which makes a difference for

people recognizing an issue. Climate-change related topics surpassed the awareness threshold in autumn 2015 around the Paris summit. But they didn't resonate on an ongoing basis. Thus, climate change as a major rationale behind policy maker's moves to change regulation is far from being a constant driver of news. In times of great volatility in politics that is clearly a risk for sustainable policy frameworks as the current discussion in the U.S. after the presidential election shows.

A country comparison in November 2016 displays that the follow-up conference in Marrakesh largely failed to attract substantial international media coverage. Coverage crossed the awareness threshold only in German TV news and that was not because of a heightened interest in the Marrakesh conference agenda but because of the power struggle between the German minister of economic affairs and his counterpart at the ministry of environmental affairs.

Share of coverage of climate versus energy-related topics on international TV news 11/2016



Basis: 7,309 reports on 14 international TV news shows

In many countries, rising populism and migration issues as well as international conflict have eclipsed the sustainability agenda. In the aftermath of the U.S. presidential elections there have been

many concerns about the impact of echo chambers, of signs of disintegration of society because people consume very different media that carry very different views on the world, that don't agree on facts and perception biases that are reinforced by social media. If someone can win elections by promising U.S. coal mine workers a bright future that stands in stark contrast to some core beliefs shared in the ESG community and the long-term impact fossil fuels have on the planet and people's wealth and lives. So it seems to be even more relevant to look at perceptions of ESG/CSR in different news channels.

The analysis in this chapter again will look at financial expert opinions expressed in global opinion-leading financial media (so called "Wall Street Media") such as the Wall Street Journal, the Financial Times and Germany's Handelsblatt. On the other hand, the analysis will focus at international TV news from countries like the U.S., the U.K., Germany, Spain, Italy, France and other territories (so called "Main Street Media"). The direction of the analysis is both on quantity of information as well as the tonality or framing of the news related to the key protagonists. Thirdly, our analysis will look at annual financial reports from selected companies to see, whether the provided information has changed.

Analysis framework

Because there is such a variety of concepts around ESG topics globally it is necessary to lay out the framework of categories that is used for analyzing media coverage and analysts' citations in this chapter.

ESG topics:

- Governance
- Regulatory compliance
- Ethical behavior
- Client/Customer Relations/Sales/Marketing

- Products/Services
- Management
- Crises
- Image/PR/Scandals
- HR - Personal Policy
- Salaries/Internal Affairs/Unions
- Production
- Environment/Climate
- Company Culture
- Environmental Policy

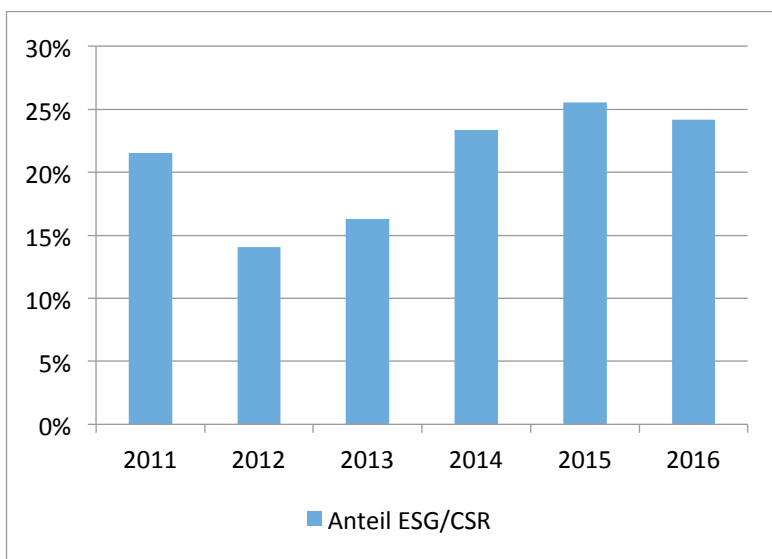
Non-ESG topics (selection of most frequently mentioned topics):

- Business results/Finances
- Business Strategy/M&A
- Rating
- Investments - can also be part of ESG program
- Market Position
- Economy/Business Cycle
- Share Price
- Globalization
- Interest Rate

- Debt
- Rumors/Sentiments
- Markets, other
- Competition
- Demand
- Expectations beaten
- Price Policy
- Research

ESG topics lose momentum in analysts' quotes

Share of ESG-related statements on various industries in analysts' citations (opinion-leading international business media) 1/2011 - 12/2016



Basis: 234,838 statements by financial analysts and experts in 11 opinion-leading financial media

The overall share of ESG/CSR-related coverage in analysts' citations on companies and industries has shrunk in 2016 from 25.5 to 24.2 per cent. Thus, a trend of four consecutive years of rising awareness for ESG issues has been interrupted. Despite a growing supply of data and metrics on sustainability criteria and rising shares of portfolios that take ESG/CSR criteria into consideration mainstream analysts' awareness of ESG criteria does not necessarily rise with real-world changes. Already this first piece of results demonstrates the importance of global index frameworks such as the UNGSII which is under development. Those index frameworks can be used to track progress related to targets such as the Sustainable Development Goals. While the dip in 2012 data could be explained by the overwhelming impact of (financial) crisis news on companies' balance sheets that had a kind of crowding-out effect on other information the dip in 2016 can be attributed to the crucial impact of geopolitical factors. However, a breakdown by industry demonstrates that ESG issues play a very different role in analysts' statements with regard to different industries.

Share of ESG-related coverage in analysts' quotes in different industries 2011-2016 (%)

year	Car	Banking	Construction	Chemicals	Retail	Financial Services	Health/pharma	Real estate	Industrial sector	Media
2011	29,5	19,2	24,6	16,4	25,9	16,0	14,0	12,5	29,2	18,2
2012	21,0	14,1	3,2	9,9	13,7	9,0	13,1	9,7	9,7	10,4
2013	26,9	15,2	4,8	10,1	16,1	11,6	13,8	4,3	18,5	13,2
2014	31,8	25,7	10,8	10,4	23,1	19,3	24,2	8,5	24,6	19,9
2015	38,4	25,7	24,9	12,4	23,5	21,5	22,2	21,2	21,4	32,8
2016	38,7	19,5	24,0	13,2	31,3	23,0	21,6	18,9	24,5	24,3

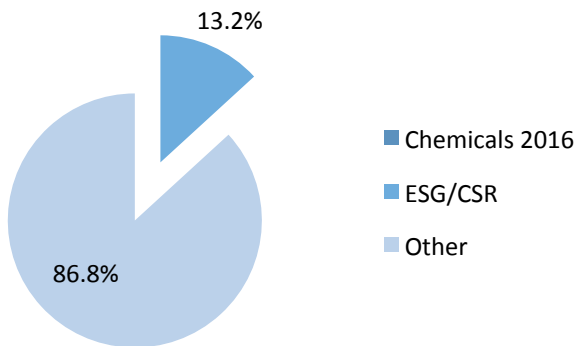
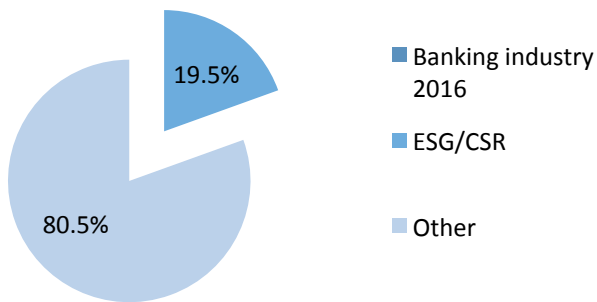
year	Consumer goods	Food	Oil & Gas	Commodities	Technology	Telecoms	Insurance	Utilities	Cyclical consumption/tourism
2011	21,7	19,1	24,2	21,2	24,5	22,6	28,3	18,4	16,8
2012	7,5	12,2	12,7	16,2	18,0	15,0	10,1	11,8	9,9
2013	7,7	10,4	13,3	15,7	20,2	10,7	12,2	11,9	21,3
2014	21,7	16,8	20,2	21,1	27,8	17,2	14,3	12,3	19,6
2015	28,1	26,8	17,8	17,4	30,6	18,1	23,1	10,5	30,0
2016	22,3	26,0	22,9	10,6	31,2	20,2	18,9	14,9	24,5

Again, the sector with the highest awareness of ESG issues in 2016 has been the motor / car industry (38.7 per cent) followed by the retail and technology sector. In the financial sector, there are different trends which will be analyzed in more detail in the following paragraph.

(2) ESG perception of the banking industry

The share of analysts' statements on ESG issues regarding the banking industry has dropped from 25.7 per cent in 2015 to 19.5 per cent in 2016.

Share of ESG/CSR-related topics in analysts' statements: banking industry versus the chemical industry, 1-12/2016

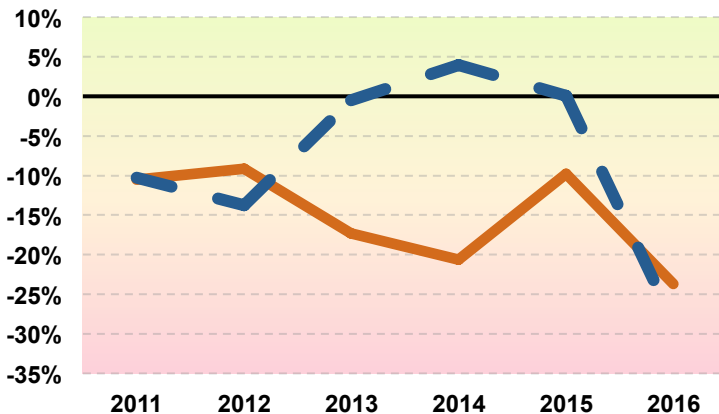


Basis: 1,055/885 quoted analyst statements in 10 opinion-leading international business papers on the banking/chemical industry

A declining share of ESG coverage regarding the banking industry on the one hand could signal growing analysts' confidence that progress has been achieved and the banking industry is on track to improve on core issues such as governance procedures and social responsibility. Because good news tend to have less news value to journalists and financial analysts compared to bad news a decline in awareness could be interpreted to some extent as a positive signal. The tone trend, however, indicates that this is not the case.

Between 2013 and 2015 banks have achieved a more favorable tone of coverage on topics like financials and strategy in comparison to ESG topics. A key reason for the negative perception of ESG issues were reports on the impact of legal risks and the mid-term impact of regulation on business models and profitability. In 2016, the tone of coverage on non-ESG issues has declined dramatically and both aspects of corporate reputation suffer from a rather negative perception. The upward trend in the perception of ESG issues between 2014 and 2015 has reversed. A detailed analysis of what information has been offered will help to understand the phenomenon.

Analyst sentiment regarding banks - International business media 1/2011 - 12/2016



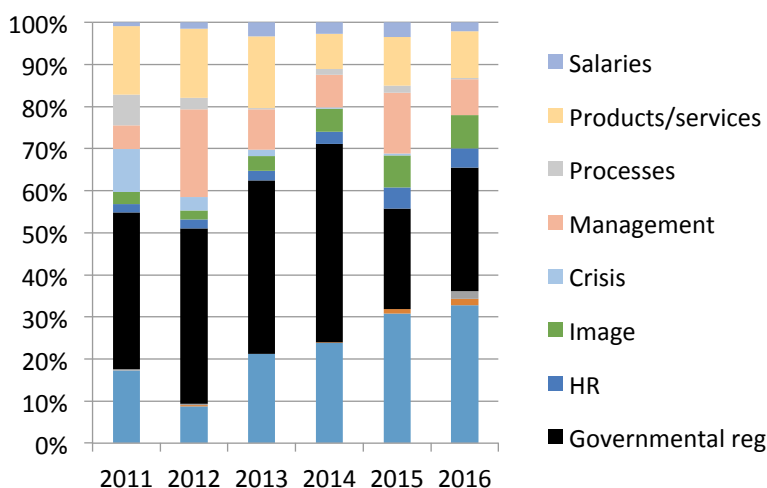
Basis: 8,620 quoted analyst statements in 10 opinion-leading international business papers

Customer/client relations have become an essential part of ESG-related coverage in analysts' statements on banks. The share of coverage on this issue has increased further in 2016. The overall tone of coverage has decreased from +1 per cent to a balance of -4 per cent of negative over positive coverage. But this figure doesn't reveal the level of controversy around customer relations. The share of negative coverage accounted for 37 (!) per cent of all statements, the share of positive coverage for 33 per

cent. So apart from analysts and financial experts noting progress on banks relationship with clients, many have voiced concerns that not fulfilling clients' needs will further undermine trust in mutual relations. A key story in 2016 was the high-level criticism of Wells Fargo. Having been framed as the "good" Main Street bank in recent years and temporarily becoming the largest U.S. bank by market value the media and politicians were negatively surprised to notice that many employees in the bank created faked accounts on its customers' data to inflate revenue and reach sales and bonus targets. Lasting low-interest levels also cut deep into banks' balance sheets and prompted price increases for basic services.

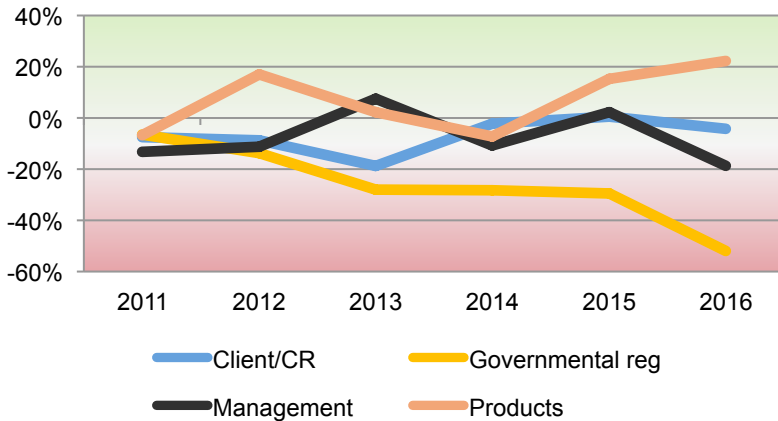
Governmental / regulatory and legal issues attracted more visibility again in 2016 indicating that numerous banks still have difficulties in closing old books and adapting smoothly to new regulatory schemes. Speculation over a \$14bn fine for Deutsche Bank related to U.S. mortgage products over weeks had a terrible impact on the stock price and prompted financial stability fears. But many other banks were in the limelight on legal risks as well.

Share of ESG/CSR-related Topics in analysts 'statements on banks: topic groups 1/2011 - 12/2016



Basis: 8,620 quoted analyst statements in 10 opinion-leading international business papers

Analyst sentiment regarding banks; international business media 1/2011 - 11/2016: tone of coverage on selected ESG topics



Basis: 8,620 quoted analyst statements in 10 opinion-leading international business papers

Tone of coverage on products has improved. This reflects hopes on the acceptance of new digital services. It also reflects the development in investment banking business (e.g. M&A advice) in 2016. Market volatility and significant M&A activity had a favorable impact on bank's trading desks and consulting activities. However, the negative tone on management indicates trust issues. One point where financial experts and analysts still see problems is sustainable management compensation.

A key concern which is relatively new on the banking industry's ESG agenda is human resources (HR). Banks in the U.S. have cut many jobs right after the outbreak of the financial crisis while their European counterparts hesitated to doing so, also because of differences in dismissal notice periods and other HR-related regulation in Europe. In 2016 many European banks have an-

nounced to slash jobs in order to cut costs along lasting problems to cope with low interest rates.

However, uncertainties about jobs as well as declining service levels in branches are predictors of more trouble forthcoming. Alex Edmans from London Business School has clearly pointed to the positive correlation between a sound workplace environment and future earnings/stock price performance.⁸ The excess of negative over positive tone regarding HR in 2016 is 45.8 per cent points, down from a minus 12.5 in 2015. The banking industry is likely to face more difficulties in attracting talent as this negative perception is not only conveyed in analysts' quotes but also in Main Street media.

Emerging ESG issue: Big Data

An issue that has only recently hit the surface but is relevant for trustful relations is the use of client/customer data by financial institutions such as banks. "Big data" has been a sort of a mantra in the industry for the last two years and many executives as well as consultants and analysts pin high hopes on new business that can be generated by targeting clients with individual offers based on their past and present behavior. The problem here, however, is the fundamental difference in law in the U.S. compared to many countries in Europe and elsewhere. In short, the approach of many U.S. based entities inspired by the success of technology giants Google and Facebook is: "do first, apologize later". This paradigm has unquestionable impact on speed. But EU law in this field is inspired by German law that was crafted around a census three decades ago strictly limits the collection of data and what organizations can do with these data with or without consent of the individual on whom the data were collected.⁹ It is rather

⁸ Edmans, A. (2011). Does the stock market fully value intangibles? Employee satisfaction and equity prices.

Journal of Financial Economics, 101, 621-640.

⁹ http://ec.europa.eu/justice/data-protection/law/index_en.htm

likely that the next frontier in the ESG discussion will be around customer data.

BNP Paribas with top reputation on ESG statements in analysts' quotes

A year-to-year comparison of the ESG perception of the most mentioned banks confirms some of the results from 2015 but also shows new names at the top. French BNP's tone raises from + 35 to +67 in 2016. France didn't have a track record for being "green" in recent years and many people immediately think of aging nuclear power plants and big oil when guessing about energy issues with regard to the EU's second largest economy. But the 2016 Eurosif SRI report sees France as the country with the highest absolute volume increase in "Best-in-Class Investments" compared to 2014 and the highest volume increase in "Sustainability Themed Investments". Consequently, one shouldn't be too surprised that the leading French bank scores well in metrics like the Dow Jones Sustainability Index. BNP managed to win a score of 87 out of 100 points which puts it significantly above the banking industry average. Morgan Stanley and JP Morgan were also rated significantly better in ESG-related analyst's quotes in 2016 compared to 2015.

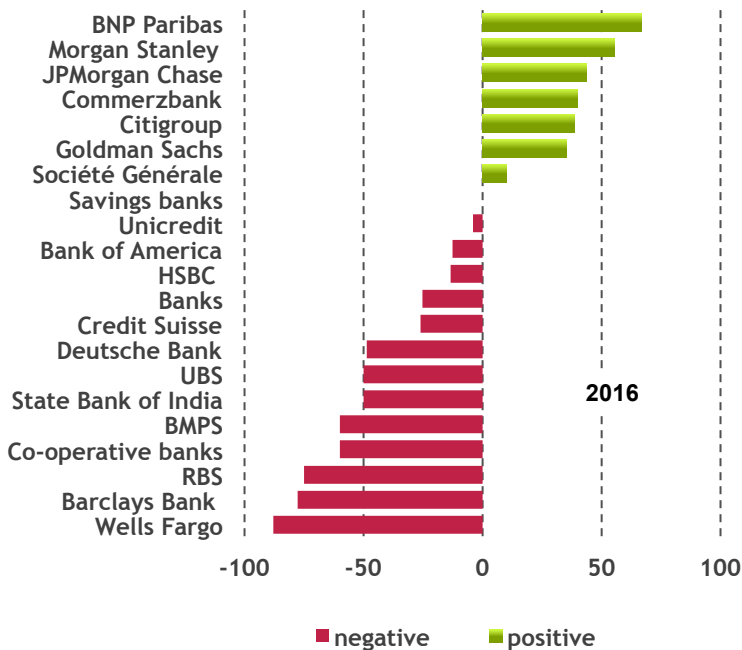
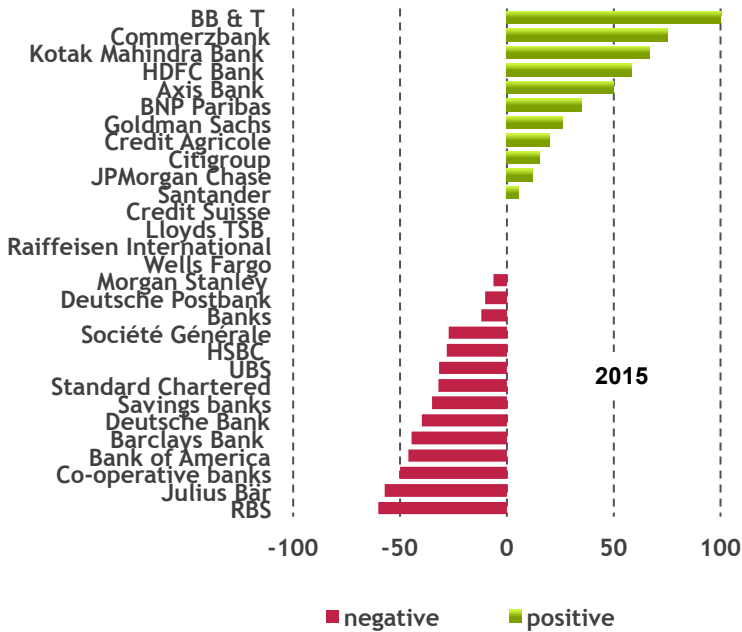
Regarding the worst performers the list hasn't changed that much with one exception, which is Wells Fargo. The American "Main-Street" bank had a balanced rating in 2015 but became the loser in 2016. Initial reports from L.A. Times in 2013 about a "pressure cooker-culture"¹⁰ at Wells Fargo didn't attract much attention at that time. However, allegations resurfaced again in 2016 leading eventually to a "grilling session" of then CEO John Stumpf by Senator Elizabeth Warren where she criticized Stumpf of setting a target of eight accounts per customer to cross-sell products when

¹⁰ Wells Fargo's pressure-cooker sales culture comes at a cost. Los Angeles Times, 2013-12-21

other big banks on average have three accounts per customer.¹¹ Eventually, the scandal led to the replacement of Stumpf. For the media it was a clear case that the banking industry's cultural problems don't end at Wall Street.

Analyst sentiment regarding banks on ESG issues; international business media 2015/2016

¹¹ <http://edition.cnn.com/videos/cnnmoney/2016/09/21/elizabeth-warren-wells-fargo-ceo-cnnmoney.cnn>



Basis: 11,524 statements on banks. Only ESG-related coverage with more than five statements per bank is displayed in the slides above

A quick check of ESG tonality versus stock price performance indicates that BNP Paribas outperformed the EuroStoxx50 by more than 15 per cent in 2016 and by about 60 per cent in a five-year-period. JP Morgan and Morgan Stanley likewise outperformed indices like the MSCI World significantly. But it needs to be mentioned that a significant part of the excess value was linked to the recent stock market rally after the U.S. presidential elections. Commerzbank achieved a favorable tone in ESG-related analysts' quotes in 2015 and 2016. But the excess of positive coverage has dropped 35 per cent points. And Commerzbank's share price development has significantly lagged behind indices such as the EuroStoxx 50. So what went wrong here? On the one hand Commerzbank is said to have many ESG/CSR policies in place and attracts better scores in sustainability ratings than the banking industry average. On the other hand, the media, the public and financial markets were surprised to learn that Commerzbank was heavily involved in so called cum-cum businesses that are designed to lower tax payments from foreign investors.¹² Commerzbank also came under scrutiny regarding its business policy on corporate clients. Main-stream media heavily criticized the bank's slashing of jobs. Commerzbank's share price was further hit by hedge-funds betting against the stock.¹³

The scandal at Wells Fargo led to a double-digit loss in share price and the scandal was a significant blow to Wells Fargo's reputation. However, trust in the new CEO and the market rally have led to a recovery of the stock in recent weeks. So is Wells Fargo out of the woods? Certainly not, according to media reports investigations into alleged misselling practices are continuing.¹⁴

¹² FAZ 05/04/2016: "Commerzbank bestürzt Börse und Politik".

¹³ FAZ 10/07/2016: „Britischer Fonds wettet gegen die Commerzbank“

¹⁴ CNN Money 11/03/2016 „Wells Fargo's legal mess just got worse”

Key partner Prudential has announced it would suspend its life insurance sales co-operation with Wells Fargo until it had completed an investigation into the bank's sales tactics.¹⁵

The Main-Street view on banks in 2016

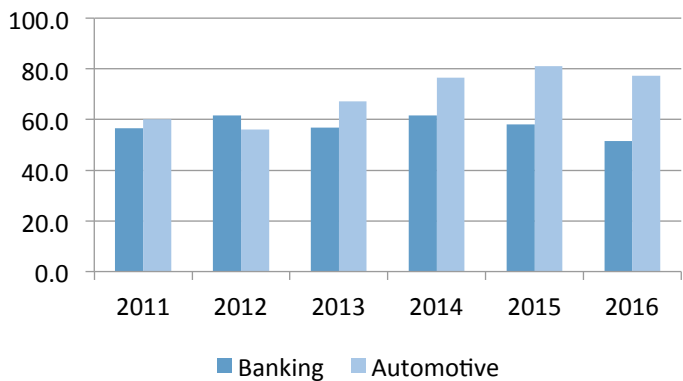
After analyzing financial experts' quotes on banks in global business media, the following chapter looks at the banking industry's coverage on international TV news like the BBC and German Tagesschau. ESG-related factors have accounted for a share of 52-62 per cent of all coverage on the banking industry in recent years. The relatively strong emphasis compared to analysts' reports is caused by the different angle of reporting compared to financial media. Analysts' quotes go more in depth on financial numbers and earnings expectations. TV news, on the other hand, is more concerned with customer-related topics like fees and consumer protection issues as well as legal risks/litigation and regulation. The share of ESG-related coverage on TV news has dropped somewhat recently displaying a similar trend as financial news / analysts' quotes. The primary reason for the declining share of ESG-related coverage is a decrease in the number of reports on litigation and legal risks.

The banking industry's tone regarding CSR/ESG issues has improved marginally to -49 per cent balance of positive/negative tone, up from -52 in 2015. The detailed analysis unveils slight improvements in tonality on regulation/legal and accounting. CSR-related activities like sponsorship have been positively noted as well. But tone on client relations has been more negative as some banks sent letters to their clients asking them to cancel high-interest-rate fixed income products and raised fees for basic services like current accounts. Tone of coverage on management was more negative as well and job cuts and the Wells Fargo scandal led to substantial negative reporting on HR and workplace environment. So all in all there is little to cheer for the banking in-

¹⁵ New York Times online 12/12/2016 "Prudential Suspends Sales of Its Life Policies by Wells Fargo"

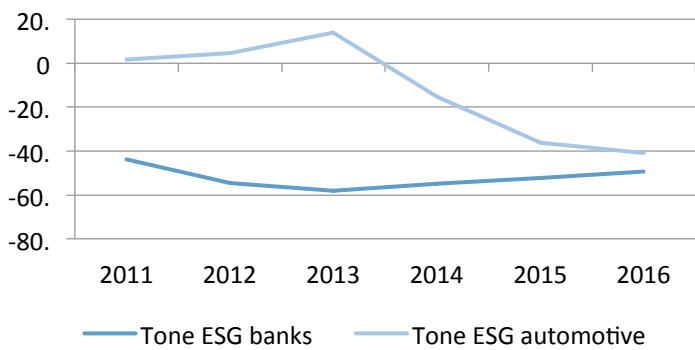
dustry when it comes to CSR/ESG reputation on international TV news and the dark shadows of the past are still visible.

Share of ESG/CSR-related topics on TV news: banking industry versus the automotive industry, 1/2011-12/2016



Basis: 15,633 reports on banks, 10,830 reports on the automotive industry on international TV news

Tone of ESG/CSR-related topics on TV news: banking industry versus the automotive industry, 1/2011-11/2016



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So all in all there is little to cheer for the banking industry when it comes to CSR/ESG reputation on international TV news and the dark shadows of the past are still visible. The 2016 analysis of ESG perceptions in both - financial analysts' quotes and TV news - restates former year's findings that the banking industry still has a long way to go to build up trust on sustainable business practices. Lasting differences in regulatory schemes around the globe as well as differences in cultural norms remain significant obstacles towards a coherent development forthcoming.

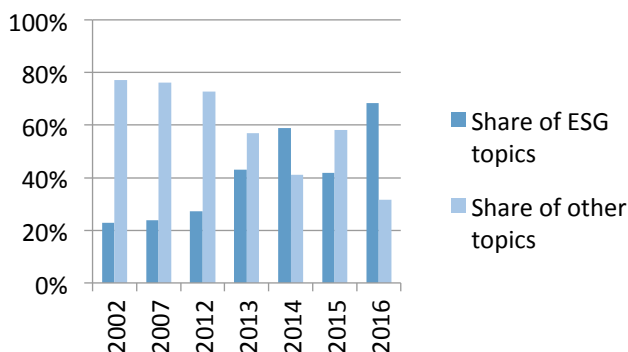
(3) Trends in corporate reporting on ESG - evidence from annual reports

After analyzing perceptions of banks by other stakeholders such as journalists and financial analysts we are going to have a look at what kind of information was provided by companies in their annual reports. We use the same method (media content analysis) as in the analysis of TV news and financial media information to digest the statements in the CEO and chairmen letters regarding ESG-related content.

Deutsche Bank has claimed to having managed the financial crisis comparatively well in 2008/2009. However, it has come under scrutiny in recent years regarding legal risks including its involvement in the LIBOR interest rates fixing scandal and the U.S. mortgage-backed securities markets. A potential US-\$14bn fine by the U.S. Department of Justice was a driver of speculation by

hedge-funds against Deutsche's stock in 2016 as the bank said to have taken provision for only €5.4bn of legal costs. Costs for legal claims rose from € 277m (Annual Report 2011) to €5.2bn (Annual Report 2015). Deutsche Bank's leadership has responded with a company-wide program to foster cultural change and reduce risky behavior in future. The analysis of the annual reports displays a clear shift towards addressing ESG issues by the CEO and the chairman. The share of ESG-related topics rose from 22 per cent to 68 per cent. An in-depth analysis conducted in last year's CSR Index (pp. 111-113) showed that the major change in CEO and chairman messages was the growing emphasis on cultural change and client relations over financial market-related messages on growth, earnings and stock price targets.

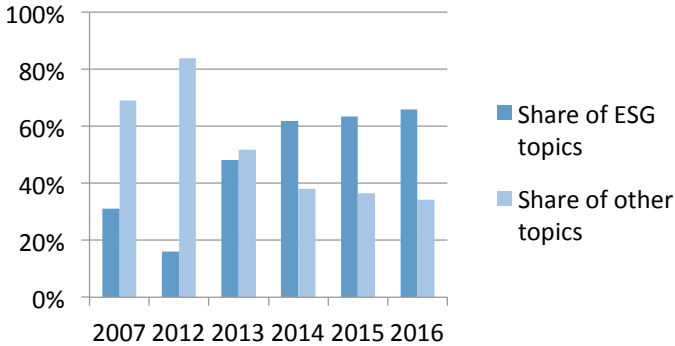
Share of ESG issues vs. other topics in Deutsche Bank's annual reports (publishing year)



Basis: 347/758/744/693/425/1,345 analyzed statements in Deutsche Bank's annual reports

Similar to Deutsche Bank, Commerzbank has emphasized ESG-related topics in its annual reports. The share of ESG-related coverage rose to 65 per cent in last year's annual report, a constant increase since the release of the 2011 annual report in 2012.

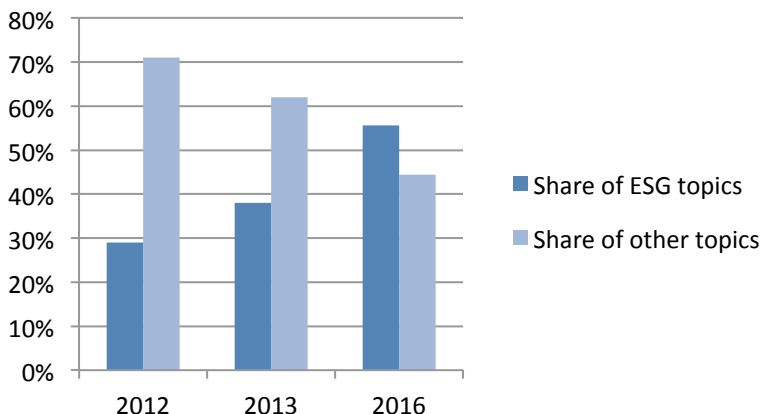
Share of ESG issues vs. other topics in Commerzbank's annual reports (publishing year)



Basis: 1166/492/594/984/1177/1186 statements in Commerzbank's annual reports

A detailed analysis of Commerzbank's report also confirms the growing importance of culture-related statements since 2012. The share of coverage on management-related topics grew as well. However, Commerzbank hasn't put more emphasis on customer-related statements in its recent report. In light of significant changes regarding what kind of clients Commerzbank wants to target this could be seen as a missed opportunity and maybe also one reason why the value development in 2016 has been so volatile. A final look at the insurance industry indicates that the trend towards more ESG-related information in the financial industry is not limited to banks. Munich Re, the world's largest reinsurer and a large player in primary insurance services has raised the share of ESG-related communication in recent years from 29 to 56 per cent.

Share of ESG issues vs. other topics in Munich Re's annual reports (publishing year)



Basis: 2,386/1,444/600 statements in Munich Re's annual reports

The analysis of annual reports displays growing importance of ESG topics. From the corporates' perspective corporate culture seems to be a crucial issue for sustainable success in the financial industry. If this is true, the media would be well advised to analyze in more detail, what kind of corporate culture is prevailing in financial institutions and how senior management is driving processes of change. It would be necessary to analyze the relations between corporate culture, product and services quality, workplace environment and shareholder value to come to comprehensive judgments of which companies are less or more equipped to cope with future challenges. The holistic perspective if the UNGSII index framework will help to get this kind of analysis done.

(4) ESG perception of the automotive industry

In chapter two we have looked at the share of ESG-related coverage in financial analysts' quotes in different industries. Since the emission manipulation scandal at Volkswagen was unveiled in September 2015 the automotive industry has come under scrutiny. What started as a scandal at a single (but large) automotive group has formed opinions of consumers, financial markets and politicians since then. A few recent examples of just how far-reaching the impact of the scandal has been:

- German Minister of Environmental Affairs, Barbara Hendricks thinks a car scrappage program for diesel and petrol engines is possible.¹⁶
- The Chinese government has published a draft law regarding a quota for selling electric cars¹⁷
- The market share of Diesel cars has shrunk in key markets like France, Spain, Germany, and the U.K.
- Tesla, the electric-only car manufacturer from the U.S. delivered more than 50.000 cars between January and October 2016, outnumbering 2015 full-year sales after nine months.¹⁸

A number of tests regarding fuel consumption as well as emission limits has been published over the course of 2016 and despite the fact that Volkswagen remains most frequently mentioned in those reports the scandal has radiated on other brands as well.

The question of what kind of transmission technology should be built into cars in future has become one of the most important questions for industry leaders and will be a major driver of research and development activities in future apart from self-driving cars/artificial intelligence.

Analyst's citations in the media - the Wall Street's perspective

Last year's analysis indicated a rising importance of ESG issues regarding the future business success as documented by the rising level of analysts' statements: the share of analysts' quotations on ESG-related topics regarding the motor industry has risen be-

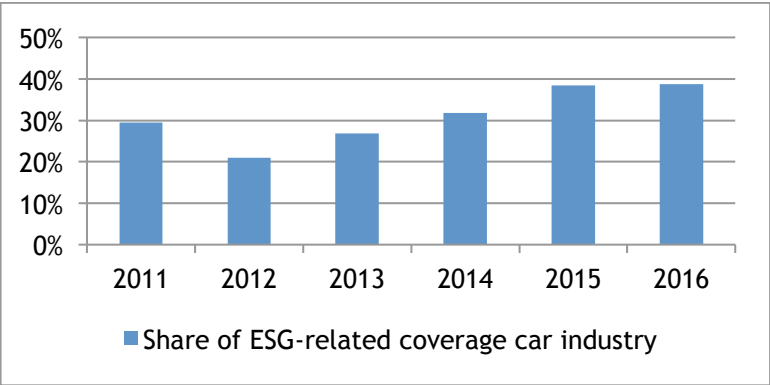
¹⁶ Die Welt 12/12/2016

¹⁷ Süddeutsche Zeitung 10/30/2016

¹⁸ <http://teslamag.de/tag/absatz>

tween 2011 and 2015 from 29.5 to 38.4 per cent. This year's analysis shows a further rise to 38.7 per cent and gives the automotive industry the top spot regarding analysts' statements on ESG.

Share of ESG-related statements on various industries in analysts' citations (opinion-leading international business media) 1/2011 - 12/2016 on the car industry



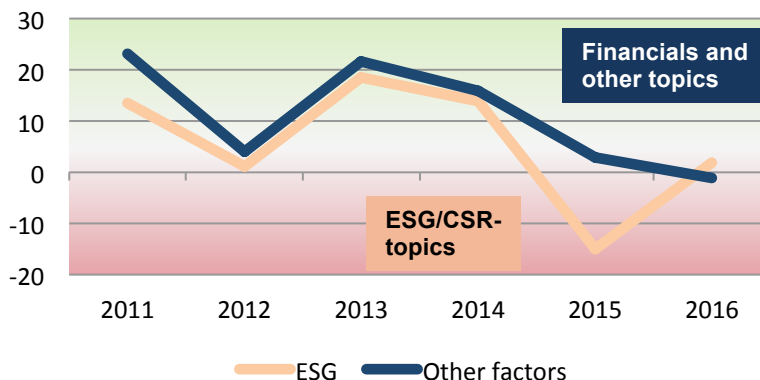
Basis: 18,390 statements on the car industry by financial analysts and experts in 11 opinion-leading financial media

A detailed analysis of the tone of statements underpins the shock that analysts felt in 2015. The balance of positive/negative ratings dropped to -15 in 2015 from +15 in 2014. Tone on non-ESG topics (primarily financial issues) dropped from +16 to +3. While the tone of coverage on ESG topics has improved in 2016 to +2 the negativity on financial issues has increased further. Compared to 2011 and 2013/2014 it seems that analysts' have lost a certain amount of trust in the automotive industry.

Dissecting the data on a topic and company level shows that the legal/regulatory framework and law suits still significantly weight on the industry's perception. Tone of coverage in this field has decreased from -29 to -32 per cent. On environmental issues the tone of coverage has improved again after last year's shock and now is at -11. A disturbing fact for the industry is the decline of

tone on products: from a peak of +34 per cent in 2013 it has dropped to -8 per cent in 2016. There seems to be a substantial amount of uncertainty whether the car makers are doing the right things.

Analyst sentiment regarding the car industry - International business media 1/2011 - 12/2016



Basis: 11,084 statements by financial analysts and experts in 11 opinion-leading financial media

Looking at the data from a brand perspective Volkswagen remains in the limelight on ESG topics in 2016. 18 per cent of all statements on ESG issues regarding the motor industry were centered on the German carmaker and 35 per cent of all individual brand mentions. Tone on Volkswagen plunged in 2014 already - on governance issues at that time. But last year's score of -58 per cent points has only gradually improved this year to -48. Other carmakers saw a significant deterioration of their ESG perceptions as well, e.g. Mitsubishi. The large U.S. manufacturers got balanced scores on ESG topics which mean they couldn't benefit from the weaknesses of their peers.

Summing up the findings of the analysts' statements it is fair to say that they have gained rising importance to financial analysts. That is probably less because analysts would love to see greener cars but because they realize that regulation as a consequence of

political environmental policy targets as well as a response to recent scandals can be a game changer for the industry and who will be in the lead tomorrow. Tesla hasn't been able to make use of its edge regarding electrical / battery transmission because of widely watched accidents in 2016 which were linked to battery technology as well as malfunctions in driving assistance systems.

TV news amplify ESG issues on the automotive industry

Earlier in this chapter the tone of coverage on ESG issues regarding the banking industry was compared with the automotive industry. It has declined from -36 to -42 per cent. What seemed to be a negative surprise last year and - hopefully limited to a single manufacturer - emerged as a full-blown crisis to the industry. According to research conducted by Media Tenor's Tobias Thomas and several academics the overall tone of coverage on a brand in broad sheet media is a significant driver of customer preferences and has an impact on sales.¹⁹ The image deterioration of the automotive industry is not limited to ESG topics. Tone of non-ESG issues dropped from +8 in 2015 to 0 in 2016.

Again it is necessary to dissect the data and look at individual manufacturers and topics. Key ESG dimensions in the automotive industry are environmental topics, customer relations, products quality and safety, regulation/legal, and management integrity. The tone of coverage on international TV news regarding these issues in 2016 was (in brackets the 2015 scores):

- Environmental topics: -61 (-64)
- Customer relations: -27 (+3)
- Product quality/safety: -32 (-31)
- Management: -61 (-30)
- Politics/state: -23 (-65)

The negative score on environmental issues is hardly surprising in light of the global wave of investigations into emission and fuel

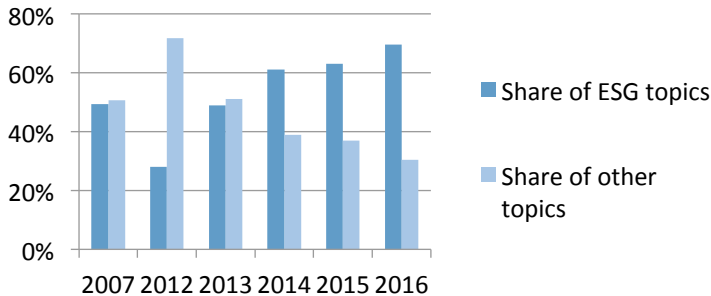
¹⁹ Dewenter, R., U. Heimeshoff, and T. Thomas (2016), Media Coverage and Car Manufacturers' Sales, Economics Bulletin, 36, 976-982.

consumption standards triggered by the Volkswagen scandal. But it has caused the industry a substantial problem regarding public acceptance. This can be seen by policymakers guessing over temporary or lasting bans of certain types of engines / vehicles.

A new problem is the negative score on customer relations. In the pre-internet-times scandals often remained a problem of the local markets and had no significant spillover effect on other markets. In Volkswagen's case it is different. Volkswagen's measures to indemnify U.S. customers of their faulty Diesel cars were alleged to be much more generous compared to measures in Europe and prompted a number of reports on customer rights in such cases. The legal framework in the U.S. and Europe may be different, perception is not. Tone of coverage on management deteriorated on rising evidence that problems at Volkswagen as well as at other players in the industry were allegedly known by senior executives long before they hit the public. Management compensation has been in issue in this context as well. The tone of coverage on politics/state/legal has recovered slightly but remains negative. Immediate estimates about potential costs of damage payments and lawsuits regarding the Volkswagen scandal turned out to be overstated and governments and policymakers' response to the emission scandal was moderate in many cases as politicians kept an eye on the industry's role as an employer and business partner for numerous other companies in the supply chain.

Did the scandals have a measurable impact on annual reports of Germany's top car makers Volkswagen, Daimler and BMW?

Share of ESG issues vs. other topics in Volkswagen's annual reports (publishing year)



Basis: 3,559 statements in Volkswagen's annual reports

ESG-related topics have increased in Volkswagen's annual reports in recent years. However, in 2007, the share of ESG and other issues was already nearly even. The 2006 annual report launched than was put under the headline "sustainability" and the subsequent share of statements was high. It was the same year that Volkswagen launched the clean diesel technology in the U.S. The 2015 report launched in 2016 displays the highest share of ESG-related statements in the CEO and chairman letter so far (70 per cent). The section starts with a quote from CEO Matthias Müller:

*"Our Group has qualities that did not vanish overnight, qualities on which we can also build for the future."*²⁰

Obviously this is a response to the emerging crisis following the diesel emission scandal. And Müller starts his letter with a sincere apology to shareholders "that the trust you placed in Volkswagen has been broken". The chairman's letter, however, conveyed rather legal language.

ESG-related coverage also occupied more space in the annual reports from Daimler and BMW that have been less hit by the scandal but obviously faced the pressure on the industry coming from

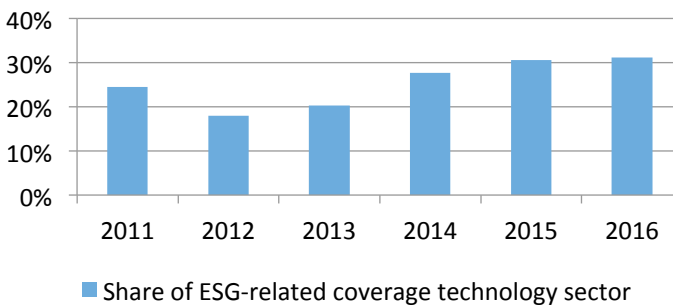
²⁰ Volkswagen Annual Report 2015, p. 36

it. But the reports from Daimler and BMW less emphasized environmental issues.

(5) ESG perceptions of the technology sector

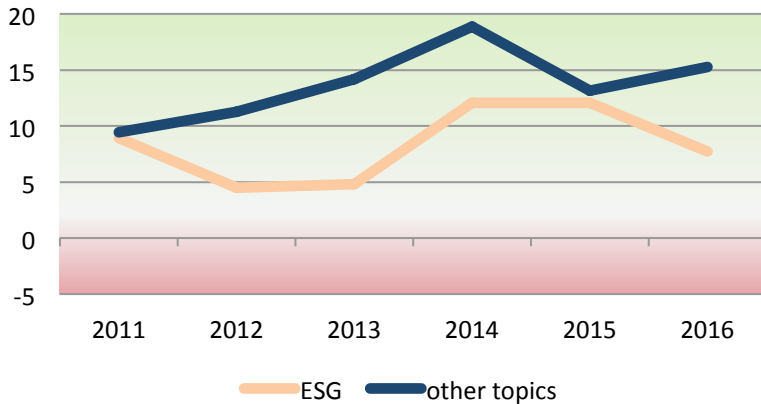
The technology sector for a long time hasn't been considered to be an attractive target for NGO campaigns aiming to create a more sustainable world. Protests, strikes and boycott calls as well as information campaigns have primarily targeted utilities, the oil & gas industry, the chemical sector, farming, the food industry and the automotive industry. Controversial issues have been deforestation, palm oil, CO2 emissions, oil-spills, shale gas and HR issues such as working conditions and slave labor. Occasionally, companies like Apple were targeted because of working conditions at their Chinese suppliers. So it might come as a surprise that the technology sector has the third highest share of ESG-related coverage in analyst's quotes, right behind the car industry and retailers.

Share of ESG-related statements on various industries in analysts' citations (opinion-leading international business media) 1/2011 - 12/2016 on the technology industry



Basis: 46,222 statements on the technology industry by financial analysts and experts in 11 opinion-leading financial media

Analyst sentiment regarding the technology industry - International business media 1/2011 - 12/2016



Basis: 46,222 statements on the technology industry by financial analysts and experts in 11 opinion-leading financial media

The analysis displays, that the tone of coverage on the technology sector is net positive for ESG and non-ESG issues. But tone on ESG issues has dropped in 2016 to a mere +7.7 excess of positive over negative ratings. Drivers of negative coverage were Samsung's high-profile product recall of its newly launched Galaxy Note smartphone due to severe battery safety issues that couldn't be fixed by an initial recall. The event was said to be a major blow to Samsung's reputation. However, despite the scale of the event it is not unusual that a technology isn't ripe to enter the mass market and companies have to deal with it. With regard to green energy / green technology, some players like Google have launched aggressive schedules to switch server farms that are very energy-hungry to be run on renewable energy sources. So with regard to the environmental issues the sector is probably not too likely to run into big trouble.

However, high profile concerns have emerged over data security and the impact of algorithms - a core part of the technology package the industry delivers - on customer privacy, democratic systems and the rise of populism and the distribution of wrong facts. The recent U.S. election is considered to have been heavily influenced by the spread of fake news via Social media platforms and social media echo chambers that preselect news based on in-

dividualized algorithm. Facebook and other players in the market have argued in the past that they are mere technology providers. However, policymakers are likely to change regulation. European data protection regulation is another likely driver of change in ESG perception. Many business models in the technology sector are based on “do first apologize later” strategies. However, this is in many cases not compatible with existing law and thus companies like Facebook, Uber and Airbnb are hitting road blocks.

Analysts’ so far have been slow to adjust their spread sheets on these issues. Coverage in Main-Street-media displays that it would be advisable to doing so quickly because it often is a driver for policy makers’ actions. The tone of coverage on Facebook regarding ESG issues on international TV news dropped from -2 (2015) to -28 (2016).

(6) Final remarks

Despite all activities from the civil sector in the past decade it seems that scandals and related legal actions and policy changes have been more powerful drivers of ESG-related change on the corporate side than companies changing their strategies to become more sustainable out of their own values and targets. Awareness of ESG-related issues has declined somewhat in 2016 compared to 2015 but remains an important driver of reputation. In terms of companies’ business reports the need for a sound corporate culture is emphasized in the financial sector as high-profile scandals no longer are limited to Wall-Street-banks but have emerged at Main-Street-institutions like Wells Fargo. The automotive industry faces multiple risks like emission regulation that could have disruptive impact on technologies. The IT- and technology sector is seen to have made progress on issues like energy consumption but is facing rising risks from the collection and use of “Big Data” and unintended impacts of the use of algorithms. Once more, the analysis underpins the need for global perception metrics such as the UNGSII efforts.

6. The Editors



Matthias Vollbracht is the Director of Business Research at Media Tenor International in Zurich/Switzerland and Managing Director of Awareness Metrics, a platform for reputation risk and investment signal solutions. His research focuses on the impact of media on public opinion, stakeholder groups and the reputation of institutions and individuals. Furthermore, he explores the influence of media on asset prices and economic behavior, like investor and consumer confidence. Matthias Vollbracht has been working for major international clients with focus on reputation management, agenda-setting, target systems, crisis communication, management reputation, financial communication, and CSR. He has developed reputation insurance solutions based on empirical risk assessment. He holds degree in economics from the University of Mainz and has worked as a business journalist.

Roland Schatz is the Founder and CEO of Media Tenor International and InnoVatio Publishing. Schatz is a journalist in the 5th generation of his family and has devoted the past 30 years to implementing Perception Change by empowering media. In 2008, he launched, together with Prince Ghazi of Jordan, the C1 One World Dialogue foundation, to improve Inter-Faith-Dialogue. The InnoVatio network of academics, entrepreneurs and media leaders initiated the UN Global Sustainability Index. Schatz hosts masterclasses on 'Unlearning Intolerance' at the UN and teaches at the Institute for Future Management of the Sigmund Freud University in Vienna. In 2013 Schatz was appointed Senior Advisor to the General Director of the UN in Geneva.



7. Contributors



At 28 years old, **Ari Eisentat** is a representative of the United Nations Global Sustainability Institute, an independent UN-endorsed foundation working on “Education, Substantiation, and Activation” for the Sustainable Development Goals. Ari founded DRAEM Ventures, an impact venture capital fund to invest in social entrepreneurs working to achieve the Global Goals. Ari served as the International Chamber of Commerce representative to the United Nations for the post-2015 negotiations, and is a member of the UN Women Interagency Network on Youth Development’s Working Group on Youth and Gender Equality. Ari has cofounded multiple philanthropic and entrepreneurial initiatives that support creative technology and social innovation for the SDGs. His presentations on sustainable development, venture capital, impact investing, and social entrepreneurship have been featured globally. Ari curates and speaks at universities, businesses, nonprofits, conferences, festivals, and events in addition to consulting leaders in the public, private, and nonprofit sectors.



David Traub enjoys 30+ years as an award-winning executive/digital producer, educator, investor, speaker/writer and venture catalyst to global startups, corporations, institutions and governments. His mission: deployment of the SDGs, with focus on mental health and economic development education via movies, TV and digital media, including VR/AR. David’s first movies were THE LAWNMOWER MAN (1992), JOBS (2014) and BRONX BULL (2017) the most recent. His games include PROMISED LAND (1996) and ON THE ROAD WITH BB KING (1996) games. Current development includes UNGSII ‘s GLOBAL GOALS TV AWARD SHOW and the social impact movies AMERICAN KING, GEORGE BENSON and RISE. David

earned an Ed. M (Education Tech.) from Harvard, with class-work at MIT Media Lab and HBS. In 1984 he earned BA's with honors (rhetoric/film) from UC Berkeley.



Dr Mark Esposito (@Exp_Mark) is a member of the Teaching Faculty at the Harvard University Extension School, an Associate Professor of business and economics at Grenoble Graduate School of Business in France, and a Senior Associate at the University of Cambridge-CISL in the UK. At Harvard, Mark teaches courses on Systems Thinking and Complexity, Modern Dilemmas and Business, Government & Society and serves as Institutes Council Co-Leader, at the Microeconomics of Competitiveness program (MOC) developed at the Institute of Strategy and Competitiveness, at Harvard Business School. He is Founder & Director of the Lab-Center for Competitiveness, a think tank affiliated with the MOC network of Prof. Michael Porter at Harvard Business School and Head of the Political Economy and Sustainable Competitiveness Initiative. He is a Research Fellow at the Institute of Competitiveness in India and a member of the Advisory Board at the Institute for Entrepreneurship and Competitiveness in Italy. Since September 2013, Mark has been appointed as Affiliate Faculty for the New England Complex Systems Institute. He also serves in the Board of Directors of ABIS for the 2014-17 mandate. Mark consults in the area of Corporate Sustainability and Competitiveness worldwide, including Board of Directors, Communities and National Governments. He has advised the President of the European Parliament, Martin Schulz, on the systemic nature of the EU crisis and serves as a cross-theme contributor to the World Economic Forum's reports on Innovation Driven Entrepreneurship in Europe.



Dr Terence Tse (@terencecmstse) is an Associate Professor of Finance at the London campus of ESCP Europe Business School. Before joining academia, he worked in mergers and acquisitions at Schroders, Citibank and Lazard Brothers in Montréal and New York. Terence also worked in London as a consultant at Ernst & Young focusing on UK financial services. Additionally, as an independent consultant, he advised

Shell International, F&C Asset Management, Alliance Boots, Alitalia as well as a Cambridge University-based biotech start-up. In addition to frequent appearance in academic publications, he has published extensively on various topic of interests. He has been interviewed by television channels including CCTV, Channel 2 of Greece, France 24 and NHK. In addition to his current appointment as an associate professor, he is also Head of Competitiveness Studies at i7 Institute for Innovation and Competitiveness, an academic think-tank based in Paris and London. Moreover, he is faculty of the Microeconomics of Competitiveness Curriculum developed by the Institute for Strategy and Competitiveness at Harvard Business School. Terence was chosen in May 2013 as “Professor of the week” by the Financial Times for the FT Lexicon. He obtained his doctoral degree from the Judge Business School, University of Cambridge, UK. Terence also hold a Master of Arts in Corporate Strategy and Governance from the University of Nottingham, UK, and a Master of Economics from the Universität des Saarlandes, Germany. He earned his Bachelor of Arts in German and Economics from the Western University, Canada.

