SAMUEL NEAMAN INSTITUTE
FOR NATIONAL POLICY RESEARCH

Corporate Social Responsibility of Industrial Sectors with High Environmental Impact

From Social Responsibility to Impact Valuation

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Corporate Social Responsibility (CSR) is a term reflecting the set of values an organization is adopting and implementing as standard corporate behavior on societal and environmental issues. A socially responsible organization has a genuine responsibility towards society and environment and strives to uphold general universal principles in the framework of sustainability, concomitant with financial success. It recognizes the areas with positive and negative impact and enhances the first and rectifies the latter. Thus, CSR is the conceptual and strategic philosophy towards sustainability.

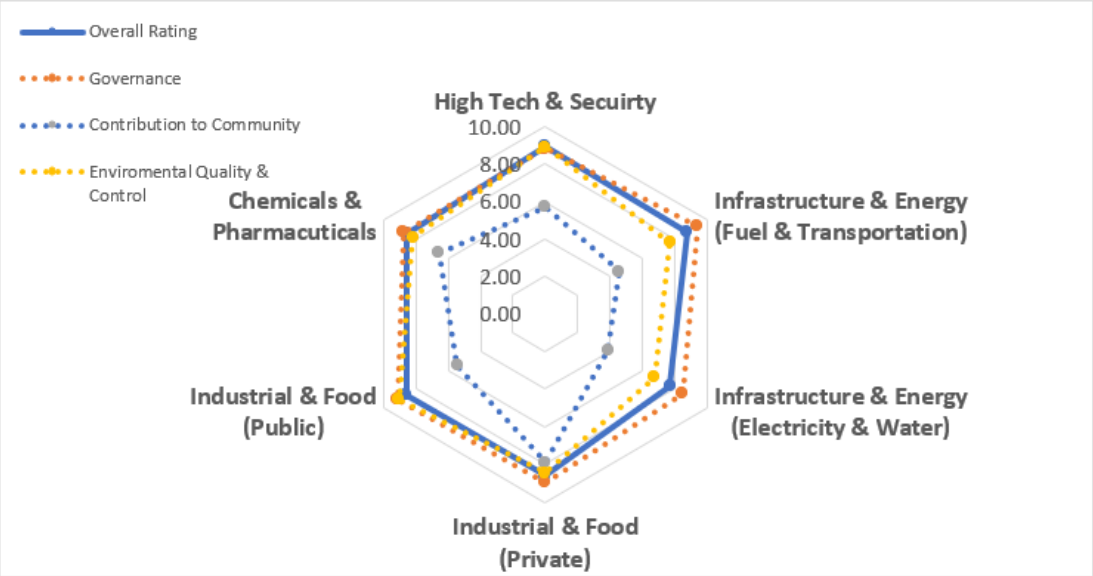
The method to assess the commitment to these values is done through measuring Environmental-Society-Governance (ESG) ratings of an organization. Thus, ESG is a framework where sustainability principles and values are part of a measurable organizational strategy relevant to all stakeholders. Although CSR and ESG have been developed separately they are on the same evolution path and are often exchangeable. If CSR is the conceptual framework, ESG is a method of measurement enabling measuring and placing actual values to the ideas of sustainability ensuring future prosperity, eventually, expected to become part of the fiduciary responsibility like earnings. Impact considerations weighs the impact of an organization on the environment and society and becomes part of the governments and legislative agencies attention prior to encouraging and removing barriers for operations. Sustainability conscious investors use impact considerations as part of their investing policy.

In Israel the NGO "MAALA" rates large commercial organizations on their ESG performance on a voluntary basis. The ESG ratings of corporations with substantial environmental impact from different industrial sectors, (high tech &

security, chemical & pharmaceuticals, food & industry, infrastructure & energy) gathered and analyzed in this report.

In order to clearly present and easily identify the general trends "MAALA" data was presented on a RADAR type graphs which allows comparison of non-connected data in each sector. The rating data were weighed according to the weight given for each major criterium using "MAALA" weights. When an topic in not rated (e.g., private organizations on governance ethics) the ratings were translated to a 1-10 scale without the missing value. Moreover, a standard score was calculated for each sector allowing a clear comparison between rated organizations in the sector.

The different ESG criteria were combined according to the 3 pillars of ESG (environment, society, governance) in order to simplify the comparison between sectors as shown in the following figure



It appears that the lowest ratings are for contribution to society and environmental consciousness of corporations in the infrastructure and transportation sector. The reasons for that require a more through sociological analysis but it can be said that there is an inherent clash between sustainability ideas and fuel and transportation sector enhanced by the type and workforce freedom of attention to these issues.

A question was raised as to the credibility of the "MAALA" ESG rating with some concern if it is not mere "greenwashing" where an organization hides behind green rating and is just a lip service to the green trend. With the assumption of good faith and considering that the ~65% of the data is quantitative it seems that the ESG rating is a genuine representation of corporate responsibility. Missing is the translation of the ESG ratings to actual monitory value, "impact value", which represent the impact an organization has on its physical and societal environment. The trend of "impact investing" appears to be adopted as a fundamental component in financial strategies, becoming an important consideration for corporate management, stakeholders and investors at large. It is therefore obvious that ESG and impact investing although close, and actually different levels of tangibility towards holistic sustainability. On a wider (national and international) perspective, the 17 sustainable development goals (SDG) of the UN are the intellectual framework towards long term lasting sustainability.

This type of thinking is expected to be a major influence on strategic, managerial and engineering thinking in the future. Therefore, in order to be able to assimilate and excise these modes of thinking and as a part of engineers and scientist's leadership in society their education should contain aspects of long-term impact thinking on the physical and societal environment as life cycle analysis (LCA). This should be a part of their basic education, becoming a part of their professional DNA.