

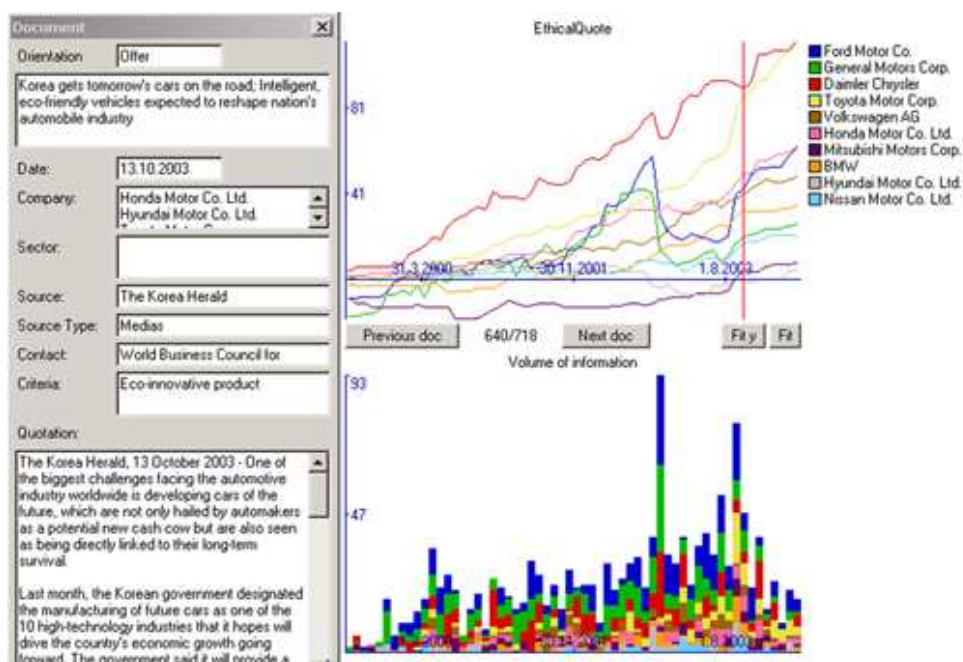
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 SUSTAINABLE MANAGEMENT IN ACTION
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Workshop e-Innovation

Tracking the ethical reputation of multinationals

Covalence has developed EthicalQuote, a tool measuring the reputation of multinational companies on ethical issues. Thousands of documents from various sources are gathered, coded and synthesized into curves and volumes. This ethical quotation system allows stakeholders to raise companies awareness by transmitting information towards the public and financial markets, and it enables the production of standard and customized reports for analyzing the reputation of multinationals by - area - source or - theme.

Automobiles : EthicalQuote and volume of information 2000-2005



This image is taken from the online, public version of EthicalQuote available on www.covalence.ch/ethicalquote.

Activity: running an ethical quotation system

Founded in 2001 in Geneva as a private limited company, Covalence was established by an association of six professionals in the fields of finance and social sciences. Its creation has been supported by the [Graduate Institute of Development Studies](#) (Geneva).

The purpose of Covalence is to increase the density of information about sustainable development. For this we have developed EthicalQuote, a system measuring the reputation of multinational companies on ethical issues. Thousands of documents from various sources are gathered, coded and synthesized into curves and volumes. This ethical quotation system allows stakeholders to raise companies awareness by transmitting information towards the public and financial markets, and it enables the production of standard and customized reports for analyzing the reputation of multinationals by – area - source or - theme.

Inspired by stock quotes and volumes, the EthicalQuote measures the historical evolution of multinational enterprises' ethical performance as it is perceived and communicated in society. This curve is given by the cumulative addition of relevant documents regularly gathered and coded according to their orientation, an "ethical offer" receiving +1 and an "ethical demand" -1 : if the curve is going up, the ethical performance is improving, and vice versa. Moving the bar along the curve makes raw information rolling in a pop-up window: this vertical insight offering a transparent view of how the graph are built and justified. The graph downwards represents the volume of information, illustrating media density; it is given by adding relevant documents for each period of time without considering the positive or negative sign.

By running its EthicalQuote system, Covalence seeks to achieve the following:

- Contribute to the bridging of the informative gap between society's increasing demand for Corporate Social Responsibility (CSR) and current knowledge about the economic activities of multinational companies.
- Create a common platform enabling various actors and stakeholders - from both private and public sector - to actively participate in reconciling the economic activities of multinationals with CSR, and further explore the positive relationship between sound management and sustainable financial returns.
- Provide a quality, independent analytical framework assisting companies, investors, consumers, governments and NGOs in their decisions.

Problem: ethical assessment in a modern world

Assessing the ethical performance of corporations in a modern world faces several challenges: limited means of direct observation, restricted access to internal data, social complexity, cultural diversity, ethical pluralism, scientific uncertainty. The most current approach is based on analyzing and weighing responses to questionnaires submitted to companies, little external information being taken into account. This approach faces difficulties regarding the mentioned challenges: how can we define universal ethical criteria? How reliable is information filled in a questionnaire by the company being analyzed?

Innovation: from questionnaire to media monitoring

Covalence innovates by using an information system for quoting the reputation of companies on ethical issues, instead of a questionnaire-based rating scheme. Using media monitoring and the Internet allow to capture numerous, diverse information pieces that can be confronted in order to give a detailed, evolutionary picture of how companies are perceived. Covalence did not only adapt current techniques, it created a new system: while most ethical rating agencies use a closed ladder and attribute grades from A to E, EthicalQuote has an open ladder: like a stock quote! Here the traded unit is not money but information. Covalence does a hard, daily work of gathering, reading and coding information according to issues covered and to the orientation of documents – positive or negative – regarding named companies. The results are curves showing how the reputation of companies and the volume of information evolve in time.

Benefits: internal and external

1. Independent, credible platform offering information on the economic, social and environmental impact of multinational companies (free online database and e-newsletter)
2. Greater use of information regarding corporate social responsibility by consumers and investors in Switzerland and abroad
3. Circulation of information from Southern NGOs to Northern companies and markets
4. Stimulation of company initiatives in favor of sustainable development
5. Jobs for social sciences graduates

Target groups: B2B & B2C

Using its website as well as email communication, Covalence works on reaching the following groups:

Target groups	Covalence offers
<i>Business to Business</i>	
Multinational companies	Reputation analysis
Governments	Monitoring services
Non governmental organizations, charities	Mediation with business partners
Ethical and conventional investors, banks	Tool for identifying progressive companies and managing reputation risks
<i>Business to Consumer</i>	
Consumers	Tool to use ethical information in purchasing decisions
Individual investors	Tool to use ethical information in investment decisions
Students and young graduates	Tool to integrate ethical information in job selection

Methodology : systemic approach, exchange of information

Overview

Considering the challenges (see "Problem"), a choice was made to consider the company as a black box, focus on information inflows and outflows and then construct an image of such performance, following systemic theories.

Covalence gathers information from numerous and various sources without normative a priori. All relevant documents gathered receive an equivalent weigh in the system, no matter the size and the audience of the information source.

This methodology is built around the notion of exchange of information, rooted in the classical economic model of offer and demand. Each document is coded regarding its orientation towards the company's behavior in ethical terms: "ethical demand" (information on what society is asking the company to do) or "ethical offer" (information on what the company is doing for society). Ethical demand refers to information formulated by actors in public-interest organizations concerning the social or environmental consequences of a multinational's activities (e.g. environmental impact of production). Ethical offer refers to corporate actions taken by multinationals to deliver on such demands (e.g. eco-innovative product).

Various documents coded as "ethical demand" or "ethical offer" are accounted and confronted, "offers" receiving + 1 and "demands" - 1. The EthicalQuote of companies emerges as a curve given by the cumulative addition of coded documents: when the curve is going up, the ethical performance is improving, and vice versa.

Criteria

Covalence has conceived 45 criteria for their capacity to capture various information on the contribution of multinational enterprises to sustainable development globally. The 45 criteria are classified into 4 groups : 1. Working conditions; 2. Impact of production ; 3. Impact of product ; 4. Institutional impact.

Rather than definitive moral judgments, the criteria should be seen as open boxes allowing to store and organize information on a barometer, case-by-case basis.

The 45 criteria have the following characteristics :

- General legal framework consisting of six major international treaties
- Based on widely accepted principles, not on specific ethical choices, to cope with diversity and pluralism
- Capacity to cover changing aspects of companies' operations
- Capacity to cover diverse actions led by stakeholders and media coverage

Legal references are: the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO Declaration of Principles concerning MNEs and Social Policy, the Rio Declaration on Environment and Development, the agreements of the World Summit for Social Development and the UN Global Compact.

Information gathering process

Covalence gathers information in two ways: a) by surfing the Internet on selected websites (core sources) and b) through an open network of correspondents among civil society organizations, enterprises, researchers, consultants and other stakeholders.

a) 60 analysts, interns coming from 20 countries, have been contributing to Covalence' database since 2001. Their main job is to visit websites of core sources, search for company names, review proposed titles, open apparently relevant documents, identify relevant quotations before entering information into the database and code it according to several variables. Multiple, temporary analysts reduce subjectivity biases in collecting and coding information.

b) Inclusive source model: Covalence has established a network of informers present in 35 countries, sending regular messages that enrich the database and weigh on the "ethical quote" of companies. Our network of information providers is expanding. Since 2001, much time has been used to establish Covalence inside civil society networks. Approx 500 direct contacts have established worldwide with NGOs, research institutes or trade unions. Covalence now receives from 5 to 10 messages by email each month, often containing relevant information that is entered into the database. Such joint-ventures with informers allow us to complete publicly available material (web search) with documents and opinions received from a variety of observers.

Projects 2005-2006

- Attract venture capital
- Automise the collection of information on the Internet
- Automise online user interface
- Increase sales with multinationals, governments, NGOs
- Start selling to investors and analysts
- Research and develop automatic coding of data (artificial intelligence)

Achievements 2001-2005

- In January 2004, Covalence launched the online, public version of its Ethical quotation system. This demo version allows users to create charts by selecting among 10 sectors and 200 companies and it gives access to all data through a java pop-up window.
- In 2004, Covalence received the Cantonal Sustainable Development Prize (Geneva).
- In 2005, Covalence is monitoring 300 multinationals from 14 industries selected from the Dow Jones World Index (large caps). Covalence collects data on the ethical reputation of the following industries: Automobile, Banking, Chemical, Entertainment & Leisure, Food & Beverage, Mining & Metals, Oil & Gas, Pharmaceutical, Retail, Technology.
- In 2005 our clients include leading multinationals like DuPont, Nestlé, Gap Inc, ExxonMobil, Philips, organisations like the Swiss Agency for Development and Cooperation, the Digital Solidarity Fund, Médecins sans Frontières, Centre lémanique d'éthique, Réalise, Tourism for Help. During the last 12 months Covalence sales have reached CHF 100'000.
- Covalence has opened two sales representative offices in the USA and Scandinavia (2005)
- In 2004 and 2005, Covalence convinced two individuals to invest in the company.
- More than 600 people have subscribed to Covalence e-newsletter. In June 2005 the traffic on Covalence website is of 44 visits per day.
- Covalence has established a network of 200 informers present in 35 countries, sending regular messages that enrich the database and weigh on the "ethical quote" of companies. A study by SustainAbility (UK) and Mistra Foundation, "Values for Money: Reviewing the Quality of SRI Research" (2004), places Covalence on their short-list and mentions Covalence's approach as among the best & most innovative practices for its "inclusive source model that allows stakeholders to include themselves in information gathering processes".
- Since 2001 Covalence has employed more than 60 interns from 20 different countries, and signed internships agreements with 18 universities in 10 countries.

Partners

Antoine Mach - Direction & research

Holding a Master of political science of University of Geneva, Antoine Mach, 37, has been a university assistant for 3 years, freelance journalist and researcher for the human rights foundation Antenna International. He is the author of *Swiss business and human rights: Confrontations and partnerships with NGOs* (Fribourg University Press, 2001). Antoine is co-founder and director of Covalence. He takes care of the research department since the company was created in 2001.



Steven Street - Legal & sales

Steven Street, 36, Swiss national, born in Nyon, Vaud. Educated in Geneva, Law Degree. Steven has practiced as a corporate & tax lawyer (Geneva Bar 1994) for ten years with Python, Schifferli & Partners and as an independent practitioner. Before the bar he was a tax consultant with Ernst & Young in Zürich. He was general counsel of Lysis International from 2000 to 2001 and is co-founder of Covalence SA that he has joined full-time as of 2004. At Covalence he is responsible for legal and sales functions.



Mélanie Clerc - Networking

Mélanie Clerc, 28, French national. She completed a Bachelor in Politics and Philosophy in 1999 and a Ph.D in International Relations at Newcastle University in 2005. After a year of research conducted at the Office of the High Commissioner for Human Rights, she started to work as a free lance consultant for NGOs and also collaborated with the WEF, the World Economic Media Forum and the World Civil Society Forum that she left in 2002 to join Covalence's team. At Covalence she is identifying potential partnerships and business opportunities with Civil Society Actors. She is also managing our open information network on CSR practices.



Beth Krasna - Company advisor

Beth Krasna holds a degree in chemical engineering from the Federal Institute of Technology in Zurich, and a Masters in Management from the Sloan School, MIT. Beginning in 1983, She was active as principal, partner and shareholder of several venture-capital firms and worked as a consultant in the areas of mergers and acquisitions, venture capital, technology transfer and licensing. From 1996 to 2003, as CEO, Beth led the turnaround of several public and private Swiss companies. Beth is currently running the blog www.thinkingethics.org. In June 2005 she joined Covalence as a non executive company advisor. Beth holds American and Swiss citizenship.



Matthias Brunner - Information Technologies

Matthias Brunner, 37, is polling specialist and political scientist, lecturer at the Department of Political Science of the University of Geneva, and research associate at the Graduate Institute of Development Studies. Matthias has joined Covalence in 2002 and is responsible for IT maintenance and development together with his colleagues Markus Peter and Damien Fournier at DataDoxa.



Marc Rochat - Product development

Marc Rochat, 34, educated in social sciences, is a former broker in derivative products. Co-founder of Covalence, Marc played an active role in developing the EthicalQuote system, in particular concerning symmetry with stock quotes and volumes and suitability for the financial community. Today Marc works on developing Covalence marketing strategy, in particular on the upcoming professional EthicalQuote user interface.



Annexes : product, company

[EthicalQuote public demo](#)

[Product: industry report extract](#)

[Covalence home page](#)

[List of clients](#)

[List of publications by / on Covalence](#)

[Web statistics](#)

[Methodology](#)

[List of criteria](#)

[List of sources](#)

[List of staff](#)

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