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Responsable Excellence pays!

Claude Fussler is Special Advisor to the UN Global Compact. He is a former business executive of Dow Chemical and a director of the World Business Council for Sustainable Development.
The present paper is an update of a contribution to the book Learning to Talk[1]. The data was prepared by Urs Schön, sustainability analyst at Sam Research, Zürich

I should be counted as a "Compactophile" of the first hour. In my view the universal principles of the UN Global Compact provide the shared reference to all corporate citizenships initiatives. In the early discussions around corporate social responsibility we had quickly come to the conclusion that "*one size cannot fit all*". Company size, market sector, geography and culture make a difference. But we must also accept that it is not "*do as you please*". We need a set of robust coordinates to stimulate alignment toward a shared purpose of progress. The 10 principles presented in the Global Compact are precisely this nonnegotiable underpinning to any corporate citizenship approach.

But, of the 1400 and more companies that have now signed up, how many have yet to rethink their business model in the context of this commitment? After four years of campaigning, the Global Compact, as a project, faces a test of performance. Is it like a comet? - With all the energy concentrated in a few companies, deeply engaged, while the larger number drags in the tail? With the foresight of this test of performance the Global Compact has initiated a dialogue around integrity measures and a model for implementation that should rather change the comet into a plain but growing snowball. This dialogue amongst early adopters and other experts resulted in the design of a "performance model" closely aligned to the practice of total quality and business excellence in order to start from a discipline familiar to well managed companies. The Global Compact Performance Model is now available as a practical handbook[2]. It proposes a suite of tools and examples of practices that can link what managers must do "*on Monday morning*" with what the Global Compact and society also expect them to deliver.

While I was working on the "how to" and the Performance Model, the question of "why" or of the "business case" kept raising its head. Much has been written in the last years about this business case. The list of business benefits is for example well summarized in a SustainAbility and UNEP study[3]: Their value matrix highlights the following main factors:

Human capital	It is easier to attract and retain talented people; motivation, creativity and focus run high in the company that is serious about corporate citizenship..
Risk management and license to operate	By going beyond the obvious risks and setting radical improvement goals, the business disruptions are reduced; frequent information and consultation with stakeholders avoid delays in building and operation permits

[1] McIntosh, M, G. Kell, S. Waddock (eds.), *Learning to Talk; Corporate Citizenship and the Development of the UN Global Compact*; (Sheffield; UK: Greenleaf Publishing, 2004)
[2] Claude Fussler and al. Raising the Bar, Creating Value with the UN Global Compact; june 2004 (Sheffield, UK: Greenleaf Publishing)
[3] SustainAbility/UNEP (2001) *Buried Treasure: Uncovering the business case for corporate sustainability* (London: SustainAbility).

Cost savings and productivity	Eco-efficiency programmes and process control reduce the consumption of energy, water and raw materials and save waste and emissions costs.
Revenue growth and market access	Product and service innovation, a new ventures approach to the huge potential of basic needs create new growth in markets of low purchasing power .
Brand value and reputation	A pro active social responsibility and sustainability strategy opens many doors: public authorities and procurement, green consumers and the press
Access to capital	A convincing risk management and a high brand reputation attract investors and reassure bankers.

Such a list always creates the impression that there are no limits and no downside to this business case. Every business to the last should have been on board for some time now. What is still holding so many up? Two things: Firstly, implementation requires a will to change and a wilful coordination of practices and resources to enable that change. The majority of people prefer to ride waves. They only change under pressure or a great inspiration. Secondly, there are a number of discouraging market conditions and institutional failures that raise the uncertainty of success; they demand an even higher courage and creativity to take the steps and "lean out of the window".

However, on balance, the advantage is convincing when one analyses the performance of those who mustered this courage, took the step and declared their commitment to the Global Compact and now allow the public to track their progress on social responsibility and sustainability.

To get the facts I turned to the research team in SAM Sustainable Asset Management[4]: SAM produces, from its Zurich base, the Dow Jones Sustainability Indexes (DJSI) that enable many financial institutions to create equity funds on the basis of a sustainability filter. It maintains, to this end, a comprehensive database of performance indicators for many companies. With SAM we asked ourselves if the group of Global Compact supporters in the database was doing anything differently from the non-supporters. We found a striking difference. It is reported in detail in this paper. It was so clear that we could not help to ask the other question: how would a fund, solely based on Global Compact supporters, reward its investors compared to a fund of non-supporters? I was apprehensive that it may turn out worse; it would be out of character to cover up the evidence, but certainly awkward to explain in a text composed to show companies the way to better implement the Global Compact through openness and dialogue!
Fortunately that analysis also shows an advantage that is quite robust.

SAM evaluates companies with a comprehensive set of sustainability criteria. Based on a "Best-in-Class" hypothesis and methodology, the proprietary process selects a group of sustainability leaders that is tracked for share price performance in the form of an Index. The founders of SAM started their work in 1995 as financial asset managers at the early stage of the socially responsible investment wave before it grew to the current $2,000 billion business worldwide. Their methodology to screen and select a distinct portfolio of companies proved successful and reliable. They could demonstrate that this selection consistently outperformed the benchmark of the Morgan Stanley Capital World Index (MSCI), therefore bringing a positive risk/value profile.

This was one the first research findings into the objective correlation between shareholder value and a sustainability strategy. At last the advocates of the business case were vindicated by this clear divergence between the peaks and valleys of two stock market charts. In 1999

[4] www.sam-group.com

the SAM selection was adopted into the Dow Jones family as the Dow Jones Sustainability Index. It is now the basis for a number of specific variations and facilitates the design and delivery of customized financial products based on equities screened for sustainability.

Every year SAM takes the largest 2,500 companies, by market capitalization, from the Dow Jones Global Index. In order to avoid comparing a mining company with a bank or a food producer it sorts the companies into market groups by their respective major activity. While all companies are invited for the evaluation 487 responded directly to a detailed questionnaire in 2003 while another 284 were evaluated from public data. The direct response requires a company commitment. It competes for time with more and more questionnaires from other rating agencies and research groups. Invariably such questionnaires land on the desk of the same person who may already be grappling with the internal process of the company's own sustainability report. This is not likely to change. There are ever more specialized analysts looking for insights on the social responsibility side. Mainstream analysts are also looking for additional indicators of a company's management quality. Companies have usually more staff to cultivate the traditional financial analysts through yearly group briefings, monthly conference calls, special interviews and continuous news lines. It may be time to think about the opportunity for their investors' relations staff to master as well the communication of the issues of sustainability.

The SAM questionnaire is tailored for each market sector. It probes for key performance elements in the environmental, social and economic domains to assess how risks and opportunities are managed. It is practically a version of a yearly performance report, as comprehensive as the Global Reporting Initiative[5] guidelines in several aspects but also more focused on elements that have a material impact on the financial bottom line. SAM scores each element of the questionnaire for each company in each market sector. It also assesses the information from other sources for complementary evidence of performance. As a result it gets a league table of companies ranked by total sustainability score; it selects on a sector basis the top 10% of companies, and may add a few more to reach at least 20% of the market capitalisation of that sector.

In the 2004 vintage 317 companies qualified for the DJSI World index. A leader, the top scoring company, is identified in each of the 18 market sectors. Some have maintained the lead over the recent years; some have lost or gained it in a remarkable new competition to the top.

Dow Jones Sustainability Index World leaders by market sectors

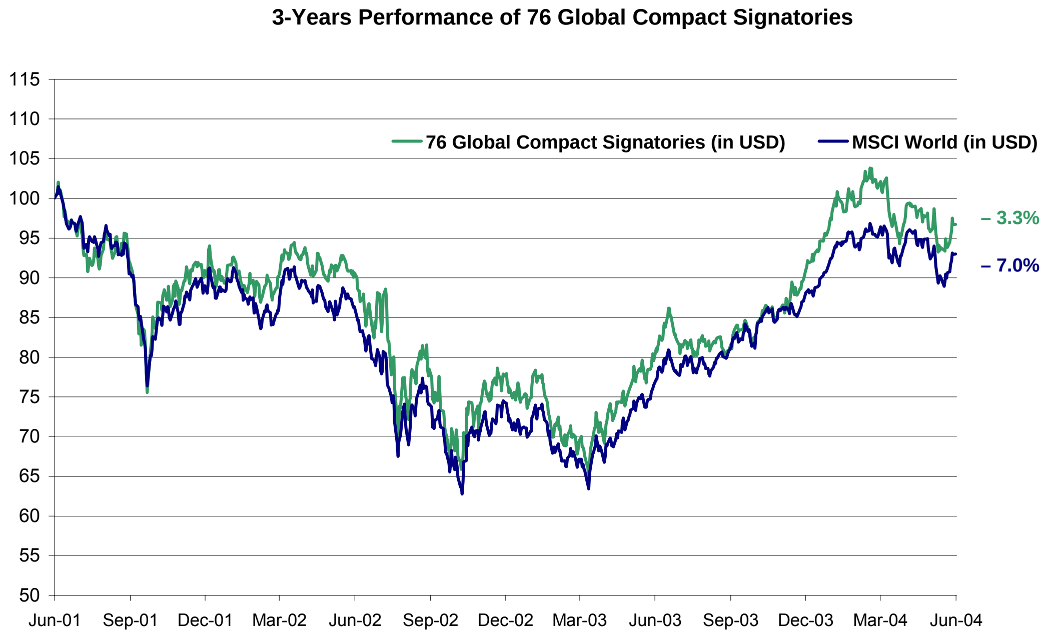
	2001	2002	2003
Automobiles	Volkswagen	Volkswagen	Toyota
Banks	UBS	Westpac	Westpac
Basic Resources	Dofasco	Dofasco	Dofasco
Chemicals	Dow Chemical	DuPont	DuPont
Construction	Skanska	Lafarge	CRH
Cyclical Goods & Services	Sony	Teijin	Philips Electronics
Energy	Shell	Shell	BP
Financial Services	ING	Land Lease	British Land
Food & Beverage	Unilever	Unilever	Unilever
Healthcare	Bristo-Meyers Squibb	Novozymes	Novozymes
Industrial Good & Services	3M	3M	3M
Insurance	Swiss Re	Swiss Re	Swiss Re
Media	Granada Media	Pearson	Pearson
Non Cyclical Goods & Services	Procter & Gamble	Procter & Gamble	Procter & Gamble

5 www.globalreporting.org

Retail	Ito Yokado	Marks & Spencer	Marks & Spencer
Technology	Intel	Intel	Intel
Telecommunications	British Telecom	British Telecom	British Telecom
Utilities	Severn Trent	Severn Trent	Severn Trent

The yearly SAM corporate sustainability assessment includes a good number of Global Compact supporters. They were 99 in the 2003 assessment and 76 made it to the index. This is a good sample but only represents large market capitalization companies that are included in the Dow Jones and STOXX markets. Small companies, privately held or state companies are of course not included. With this limitation in mind we found that the group of 76 signatories – let's call it the GCS76 - outperformed the mainstream Morgan Stanley Capital World Index (MSCI), in a declining market, by 3.7 % over the 3 year period between June 2001 and June 2004, analysed in USD terms.(figure 1)

Figure 1 3 years performance of 76 Global Compact Signatories



The DJSI also regularly outperforms the mainstream market, as measured by the MSCI World in USD[6]. Colin le Duc, former Head of Research Operations at SAM Sustainable Asset Management, points out that: "the risk – ie: the degree of uncertainty of return on an asset, in this case the equity of the Global Compact Signatory companies - was 26.43% for the GCS76 compared to 20.99% for the MSCI. This is an extremely interesting risk profile for an investor. Excess return is achieved at relatively low risk, even though only 76 companies are part of the GCS76, compared to approximately 1,500 companies in the MSCI. One would usually expect a much higher risk for such a small selection of companies. Thus, a broad conclusion is that Global Compact Signatories and members of the DJSI create premium shareholder value at acceptable risk levels. They definitely do not carry a handicap for shareholders relative to the mainstream market".

[6] www.sustainability-index.com

In theory an investor takes more risk in reducing investment options to a portfolio that only covers a small fraction of the market opportunities - one out of every twenty in this case. But, the experience shows that a sustainability criterion is an efficient method to pick investments. It produces rewards that outweigh the risk. It is not the only method to pick a winning group of stocks. Warren Buffet's focused Berkshire Hathaway portfolio is a resounding example[7]. Nor is the sustainability portfolio fail-safe; in 2000 the sharp simultaneous fall of Dell, Intel, AOL and Lucent stock values was such that it caused the whole Dow Jones Sustainability Index to under-perform the market average for several months before rebounding to the lead. The sustainability premium only goes so far.

Can we really speak of a Global Compact market premium?
If I had only invested in the 76 shares of the GCS76 in June 2001 I would be 3.4% better off at the start of June 2004 than someone who had invested the same amount of money in the 1,500 shares of the larger MSCI group (in the context of a declining market). As a group, the Global Compact signatories created more value. We have yet to understand why. The first answer is that over that period there were more bidders than sellers for their shares and the bidders were prepared to offer a premium so that sellers let go of their shares. This is why share prices move up – the bulls outnumber the bears. Why did the bidders behave like this? Obviously they felt that this purchase was a safe use of their money and they speculated that, even at a price premium, it would return more than inflation, treasury bonds or whatever else they could use it for. They expected the companies in that group to do better in the future. One always buys shares for future returns, short or long term.

What did the Global Compact bring to this speculative move? Is it a magic wand that boosts stock-appeal? Surely not - of all investors trading in and out of those equities none is likely to trade purely on the basis of a Global Compact criterion, or to even have heard about it. A few, the Socially Responsible Investors, definitely select shares on the basis of principles that include human rights, corruption, labour standards and environmental responsibility. They have leverage but not to the extent of pushing this kind of premium in the highly traded, large market capitalization stocks of the GCS76.

So, why is there a premium? The more realistic influence on this premium lies finally in the overall quality of each company that composes this group. It is the credibility in the management excellence and responsibility, portent of future returns, which draws the investors to these companies. This same responsible excellence opens and moves the leadership of those companies to support the Global Compact and even use it to trigger and focus further improvements. In the first instance the Global Compact engagement is an effect of existing managerial dedication to responsible excellence with all the potential to then become one of its key enhancers through the means of strategic integration.

I need to temper these conclusions with a reminder of the uncertainties, or risk profile, of such a comparison. Beside the assumed value of the sustainability commitment of the GCS76, there are a number of other biases in its comparison to the MSCI, like geography, currency, or market-mix: They could well be a cause for the value differential, or an additional handicap: it is difficult to judge on the evidence of a small difference over a few years. But I lean toward the sustainability explanation for two reasons. One is the growing body of research in this area, particularly a recent study by Claudia Volk and Hendrik Graz of WestLB: In *More gain than Pain* they clearly establish the value of a sustainability investment style with a detailed discussion of its risk profile and statistical confidence in each of the main traditional investment categories.[8] The second reason is that, when it comes to a large number of

[7] Robert G. Hagstrom; The Warren Buffet Portfolio; 1999; John Wiley & Sons, Inc; New York
[8] Hendrik Garz and Claudia Volk: Update More Gain then Pain; October 2003, WestLB AG, London; www.westlb.com

managerial practices that are driving business excellence, the group of Global Compact signatories demonstrates a clear difference with non-signatories. This was actually the first objective of the inquiry reported here. It is only after I found such a clear difference in practices that I thought that readers would also wonder about a stock value correlation; it is a simple way to check the business case and to catch the attention of business readers.

Let's now get back to the principal enquiry:
I looked in the SAM database for tangible practices that underpin the elements of business excellence in the area of corporate citizenship. A number of indicators enabled a reliable comparison between two groups of companies – those 99 companies, which signed the Global Compact – and 436 that did not. It must be noted that 90% of this Global Compact sample have headquarters in Europe. We could also include in the comparison the 308 companies that made it to the 2004 Dow Jones Sustainability Index. This index is a sort of middle ground sample as it actually includes 76 of the Global Compact signatories. The other 23 signatories had still some way to go to move into the index – a proof, if needed, that the Compact is not a magic wand to performance but the start of an interesting journey. But all three groups are already remarkable for the fact that they qualified for the SAM corporate sustainability assessment. The differences therefore become clear signs of leadership and excellence. They provide further evidence that it is possible to live up to responsible excellence without an economic penalty but, on the contrary, a market value premium.

For instance the leaders take a stand on the boundaries and their scope of responsibility: they clearly influence the behaviour of their suppliers and contractors. They show a stronger customer orientation. Their engagement with stakeholders has moved beyond communication and dialogue to partnerships on projects (2 out of 3 companies). Their investment in employee skills and knowledge and satisfaction is deeper - as a result more than 1 of 3 could measure progress in employee satisfaction. Every second company has set public environmental targets and 2 out of 5 have Green House Gases reduction objectives. One out of 3 gets its sustainability report certified. The set of key performance indicators tackles a number of Global Compact principles but child and forced labour are even a bit lower on their radar screen than for the non-signatories group. When it comes to codes of conducts all companies in the assessment score high. The differentiation is in implementation.

Some Performance Indicators for Responsible Excellence

Selected parameters for Global Compact signatories, non-signatories and components of the Dow Jones Sustainability Index 2004
Source: SAM Corporate Sustainability Assessment ™

		Non signatories of the Global Compact	Components of the Dow Jones Sustainability Index 2004	Global Compact signatories
		436	308	99
		%	%	%
Have guidelines for suppliers on	Human Rights	**28**	**43**	**65**
	Environment	**68**	**82**	**90**
	Labour Practices	**46**	**58**	**68**
	Occupational Health and Safety	**53**	**63**	**73**
	Audit suppliers performance	**36**	**40**	**39**
Corporate Environmental Policy covers	Impacts of Products services	**77**	**84**	**95**
	Suppliers and service providers	**66**	**75**	**83**
	Other business partners	**23**	**28**	**26**
	Measure customers' satisfaction	**28**	**33**	**37**

Global Compact signatories			99
Components of the Dow Jones Sustainability Index 2004		308	
Non signatories of the Global Compact	436		
	%	%	%
Engagement with external stakeholders shared project teams	**36**	**50**	**64**
Key stakeholders prioritised	**51**	**55**	**67**
Seek feedback from stakeholders	**52**	**56**	**58**
Provide regular briefings	**75**	**81**	**75**
Spend more than 1% of EBIT for social investments and philanthropy	**23**	**29**	**31**
Employee survey shows a trend for Higher satisfaction	**20**	**28**	**38**
Constant satisfaction	**26**	**24**	**20**
Lower satisfaction	**3**	**3**	**1**
Specific job training covers 90 to 100% of employees	**23**	**28**	**35**
Over 80% of employees covered by knowledge management system	**38**	**43**	**44**
Long term success of human resources policies is measured	**84**	**86**	**95**
Performance indicators are used and published for Diversity	**25**	**38**	**54**
Environment, Health & Safety	**40**	**49**	**66**
Layoffs	**9**	**14**	**24**
Discrimination	**11**	**16**	**25**
Freedom of Association	**6**	**9**	**17**
Forced labour	**10**	**11**	**8**
Child Labour	**12**	**13**	**9**
Have a certified Environmental Management System for over 90% of business	**22**	**24**	**20**
Publish a certified sustainability report with strong social component	**14**	**23**	**36**
Publish corporate environmental targets	**41**	**52**	**56**
Have set a Green House Gases reduction target	**37**	**52**	**40**
Have a Green House Gases inventory for over 80% of operations	**66**	**80**	**72**
Note: GHG inventory and targets do not apply to all industries, industry mix varies for each sample			
Have a corporate governance policy	**74**	**80**	**84**
The code of conduct covers Environment Health & safety	**85**	**92**	**92**
Discrimination	**84**	**90**	**90**
Corruption and Bribery	**84**	**89**	**83**

<for reference insert table of companies in very small print>

SAM Corporate Sustainability Assessment ™
of Global Compact signatories analyzed

the GCS76

ABB Ltd.	Du Pont De Nemours & Co.	Novozymes A/S
Accor	Electrolux AB	Pearson Plc.
AGF	Endesa Sa	Pfizer Inc.
Allianz AG	Groupe Danone	Reed Elsivier Plc
Asahi Breweries Ltd.	Groupe SociΘtΘ GΘnΘrale	Ricoh Co.
Aventis	Grupo Ferrovial SA	Rio Tinto Plc
Aviva plc	Grupo Iberdrola	Royal Dutch/Shell Group of Companies
Banca Monte Dei Paschi Di Siena	Grupo Santander Central Hispano	Saint-Gobain
Banco Bilbao Vizcaya Argentaria	Henkel KGaA	SAP AG Pfd
Banco Itaú Holding Financeira S.A.	Hennes & Mauritz AB	Schneider Electric Sa
BASF AG	Hewlett-Packard Co.	Serono

Bayer AG	Holcim	ST Microelectronics
Bayerische Motoren Werke AG (BMW)	HSBC Holdings Plc	Statoil ASA
Bhp Billiton Limited	Inditex S.A.	Stora Enso Oyi
Bnp Paribas	ISS A/S	Storebrand ASA
BP p.l.c.	L.M.Ericsson	Suez
BT Group Plc	Lafarge	Technip-Coflexip
Carrefour	Li & Fung Ltd.	Telenor ASA
Coloplast	Nestle S.A.	UBS Group
Credit Suisse Group	Nexen Inc.	Unilever
Danisco A/S	Nike Inc.	UPM-Kymmene Oy
Deutsche Bank AG	Nokia Corp.	Veolia Environnement
Deutsche Lufthansa AG	Norsk Hydro ASA	Volkswagen AG
Deutsche Telekom AG	Novartis AG	Volvo AB
Dexia	Novo-Nordisk A/S	Westpac Banking Corporation
Diageo Plc		

The other 23 not in the DJSI 2004

Air France	L'Oreal	Skanska AB
Aracruz Celulose	LVMH Moet Hennessy	Sodexho Alliance SA
AXA	Norske Skogsindustrier Free	Telecom Italia Mobile
Cisco Systems Inc.	Rabobank	Telecom Italia SPA
Daimler Chrysler AG	Renault	Telefonica S.A.
EPCOS AG	San Paolo -IMI	Titan Cement Co.
France Telecom	Sanofi-Synthelabo	TotalFina Elf
ICI	Sasol	

Are such differences enough to create value? Not on their own, but they evolve from a broader base of value drivers. There is no simple equation or a mathematical model that enables to calculate the market value of the soft dimensions of performance like a diversity target, the certification of a sustainability report or even the more tangible targets of waste and emissions reductions. A few logical chains however link social and environmental responsibility to financial value. It is easier to argue the links to the value of traded shares but this should not leave out all those companies that are not publicly traded. At some point of time state companies could be offered to public investors, private companies acquire, merge, pass to successors or secure credit lines; they too need to be concerned about value and how to enhance it for the long run.

Share value is a reflection of a company's worth through a complex prism – the economy at large, the news, the cash flows of investors, the situation of the company's sector and the investors' reading of the relative risks and opportunities of all the other choices in the market, to name a few. The market is a real time approximation of the company's worth and, as enough painful corrections have shown, its own nervous dynamics can carry it away. The market actually does not create value like a product or service business. It creates value through arbitrage between investors who have different views and expectations about the value of the titles they are prepared to sell or buy. But what finally counts in the long run is the quality of earnings of the company behind the traded security.

What creates a premium is the expectation of excess returns compared to other options to invest money. These excess returns depend on the competitive advantage of the company and particularly the sustainability of its competitive advantage over time. Thousands of financial analysts continuously screen the universe of companies to assess their strategies and future earnings in relation to their current market value. Are they undervalued in relation to their business opportunities? Are they overvalued in relation to their business risks? Alois Flatz, head of Sam Research observes[9] that: “investors are once again looking for returns in excess of a general risk premium caused by exceptional costs that the economy must absorb. While throughout the 90s the economy benefited from the peace dividends of the end of the Cold War, we had to cope in the few past years with the costs of ecological disasters of a new magnitude, anti-terrorism, pre-emptive wars, countries reconstruction, and major corporate failures. In many ways the lack of sustainability raises the hurdle or risk premium that earnings must exceed to reward investors in absolute terms and create real financial value”. This financial value premium is based on strategy, hardly big news but sometimes taken lightly in the more extreme moods of the stock market. And strategy is the effective and efficient combination of resources and business processes, employee creativity and empowerment, toward a shared vision, in ways that are difficult to imitate by competition.

Are the Global Compact signatories then better at strategy than others?
I think so, at least that they continue to be better than many others. The goals of sustainability, the challenges of social responsibility and the leadership’s inspiration by principles higher than the sole profit motivation, they all foster business excellence. I like to call this *responsible excellence*, in the broadest sense of each word. The Global Compact brings an additional aspect: a voluntary public exposure. The majority of business leaders shy away from such an exposure because they just hate to admit that they don’t quite have their act together on all issues. An engagement for the Global Compact is therefore a strong indication by a company of its confidence in its own performance. It is even a bet that, for a certain number of issues it is more interesting to get one’s act together through public exposure and stakeholder dialogs, rather than behind closed doors with like-minded, or like-confused, colleagues. “If a company is interested in understanding the future, most of what it needs to learn about the future it is going to learn outside of its own industry”, wrote Professor Gary Hamel.[10]. Plain signs of this confidence to interact on sustainability issues can be read from table of Performance Indicators of Responsible Excellence: they are the high proportion of reporters, of verification, of public improvement targets and the depth of interaction with selected stakeholders.

Managing plantations, drilling platforms, extruders, clean rooms, warehouses, truck fleets, computers and bank accounts is one thing, complex enough. If that were the only sources of value a good accountant would quickly establish their book value: end of the value story. Yet companies are valued at several multiples of their book value. The difference is “goodwill” made of many layers of “intangible” assets - intangible but essential to generate earnings, starting with the strategic savvy, the managerial competence, the know-how, the creativity and motivation of the personnel. Goodwill is as well the art of relationships, of building credibility, commitment and loyalty, not only with commercial partners, but also with public authorities, communities or new consumers, like the poor, who have needs that no one yet cared to satisfy adequately. We are back in the area of the Global Compact and sustainable development. And we are at a major source of the future cash flows and the excess returns investors are looking for. Brand strength and reputation are all about this art of relationships and vision.

[9] Alois Flatz – private note to the author. See also Gearing Up, form Corporate Responsibility to Good Governance and Scalable Solutions: p.5; Sustainability, London, UK, 2004 – www.sustainability.com
[10] Gary Hamel in Rethinking the Future; p82

Ivo Knoepfel, an investment research expert and founder of OnValues, has a view[11]: "Many of the Global Compact signatories are the "supertankers" of their industries, they take (or are forced to take) a leadership role in their industries because of shear size. These companies typically also take the lead in industry associations and push the agenda on standardization, transparency and excellence in their industry. What comes first, the chicken or the egg, success or leadership, success or engagement for sustainability? Nobody really knows, these dimensions are probably intertwined." In the long run I believe that strategies and actions consistent with the principles of the Global Compact exercise and strengthen a number of intangible assets that drive value. While causality is hard to prove it may be just as well to believe it and manage accordingly. Investors expect excess returns and it is to managers to make them happen. This brings the management of intangible assets in focus and the necessity to understand how they drive value.

As society recognizes the vital role of business in wealth creation and economic development transparency and accountability have come to the forefront of the qualities expected from business management. A Global Compact Performance Model[12] is part of the answer. Those who embrace it beyond the declarations and token documentation, to effectively drive progress towards sustainable development, do not lose out. On the contrary, the evidence builds up that they also do well on the financial scorecard.

The metaphor of the triple bottom line is now popular to describe how value is a composite of economic, social and environmental performance. Beware of the simplistic maths: it is not a sum; social and environmental progress will not offset an economic loss. Milton Friedman was justified in his claim that the primary social responsibility of business is to make profits; he should not have just stopped there. We need some higher maths to better encapsulate how responsible excellence drives value. An appropriate formula[13] may be:

$$P = me^{\boldsymbol{i}}$$

The share's market price ***P***, hence the market capitalisation, is the multiple ***m*** of expected earnings per share ***e*** with the exponent ***i*** standing for an important cluster of ***i**mpacts* (social and environmental) and ***i**nnovation* or the ***i**ntangible* drivers of reputation discussed above… The power of this ***i*** will enhance value when it is positive and growing, but as algebra and business life taught us, when it turns negative it slashes value with a vengeance. The power of ***i*** rises from vision, leadership and a wilful, creative coordination of the elements of responsible excellence. ■

[11] written comments to Claude Fussler during peer review of this paper's draft – Ivo Knoepfel: www.onvalues.ch
[12] Claude Fussler and al. Raising the Bar, Creating Value with the UN Global Compact; june 2004 (Sheffield, UK: Greenleaf Publishing)
[13] proposed by Claude Fussler in a keynote at the launch of the EDF Sustainability Chair of Ecole Polytechnique de Paris; February 2003