Where is Socially Responsible Investment, (SRI) and Corporate Social Responsibility, (CSR) Actually Heading?

EXTRACT OF AN ARTICLE BY:

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Studies by Cerin & Dobers found that the firms and sectors with the worst environmental pollution records are the ones that report the most on the environment. A study on the OM Stockholm exchange confirmed that the large and the dirty firms are the ones that produce most environmental reports, Cerin and Dobers found that there were other factors – other than sustainability ones behind the growth of (the aggregated market capitalisation value of the individual firms constituting the) Dow Jones Sustainability Group Index (DJSGI) that exceeded the growth of Dow Jones Global Index (DJGI) The likely reason for this **biased choosing is the fact that DJSGI has selected its components mainly on the basis of information from the companies themselves.**

Illnitch et al, see in their evaluation of environmental ratings that they seem to rely on public reactions rather than on precise and measurable outcomes. Instead the subjectivity in their formulations may raise a dangerous circularity where the **rankings are based on reputation and the reputation is based on the ranking.**

There is, hence, **a need for legislative and strong standardisation support, increasing the transparency and trust in corporate environmental disclosures,** as argued by, Niskanen and Nieminen and Schaltegger.

Cerin and Dobers notice that companies with larger market capitalisation values are better rated in sustainability indexes (such as Dow Jones') and thus included to a higher degree. This and the other biases found by Cerin and Dobers were later on confirmed by Deutsche Bank Equity Research. Another **study illustrates that 3 out of 4 sustainability criteria in Dow Jones Sustainability Index are based on the**

evaluated firms' own communication. In other words, evaluated companies create their own reputation.

This fact together with the above shown sustainability criteria (three out of four) in the DJSI being based on information generated by the companies themselves, hence, prevent the selection of firms in the sustainability indexes that are less harmful to the environment per economic activity. Consequently, **dirty firms that report – and are pushing their clean-social image – have become over represented in sustainability indexes that are based upon companies' own reporting.**

Considering companies on the OM Stockholm Exchange: not only has SAM Sustainability Group managed to choose components for their DJSI that has about the same CO^2 emissions per turnover ratio that the companies that create sustainability/environmental disclosures have – **which is about twice the ratio that the other firms on the exchange have** – but SAM also managed to follow the same proportions regarding firms absolute emissions. **Components selected in the DJSI emit on average 714,000 tons of CO^2 while the other non-sustainably rated companies on the same exchange emit on average 114,000 tons of CO^2. This proportion is similar to the one between reporting companies, 944,000 tons of CO^2 emissions, and non-reporting companies, 60,000 tons of CO^2 emissions.**