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Vigeo and CSR—The Daughter of Globalization

Nicole Notat, CEO of Paris-headquartered Vigeo, was set to present to the board of directors her intentions for growing the company in 2015. The company offered products and services for investors and asset managers and for companies and local authorities in assessing companies' and organizations' environmental, social, and governance (ESG) practices. As the European leader among ESG rating agencies, Vigeo provided convincing verification that socially responsible investment (SRI) no longer meant giving up some return. From its beginnings in 2001, the amount of capital invested in SRI funds in France had risen from (euros) EUR80 million[1] to more than EUR115 billion (see **Exhibit 1** for regional data). Whether driven by regulation, interest, or other means, social considerations and doing the responsible thing seemed to be catching on. Yet like the companies her agency covered, Notat had to continue to build the business and grow globally. She had to take a strategic view of where the SRI market was going and be prepared.

Up until 2012, growth had been through mergers and partnerships. By 2015, Vigeo had offices in Paris, Brussels, Tokyo, London, Milan, Santiago, and Casablanca, and the board had asked Notat to think more about scaling up. The market signaled a demand for emerging-market coverage. Vigeo had embarked upon a program with an in-house analyst team and was on track to fully cover all emerging-market countries by mid-2015. And on the opposite end of the spectrum, there was interest in expanding in developed markets such as the United States. Indeed, Vigeo had introduced its first second-party opinion in the United States on the issue of a USD350 million green bond to finance the Clean Rivers Project in Washington, DC, in the summer of 2014.

Notat and her team faced several challenges around expansion. Should they stick to the firm's methodology—its 38 sustainability drivers, which was highly credible in Europe—everywhere else in the world? Perhaps Vigeo should adapt existing services and products to investors and markets in both developing and developed countries. Or would entering these markets mean rethinking the business model from the ground up? What about ramping up beyond consulting and ratings through new-product growth such as the green bond second-party opinion? How would any of these strategies fit with the company's overall mission?

CSR: What Does It Mean?

Although the idea of corporate social responsibility (CSR) had been around for some time, the meaning and practice of CSR varied dramatically from country to country. From donating to charitable causes and being something separate from a firm's business practices, to conducting business affairs in a way that caused no harm, definitions of CSR were assorted. But more generally, in 2001, the idea of CSR was unrelated to an organization's bottom line and meant allocating some resources to the topic *if* business was going well.

[1] EUR = euros. USD = U.S. dollars. AUD = Australian dollars. CAD = Canadian dollars. JPY = Japanese yen.

This field-based case was prepared by Gerry Yemen, Senior Researcher; Ronald G. Kamin, Professor, ISC Paris; and Andrew C. Wicks, Ruffin Professor of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2012 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an e-mail to* sales@dardenbusinesspublishing.com. *No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.*

Eventually some countries started to incorporate formal laws around CSR practices, while others did not. In 2001, France became one of those countries whose government adopted such laws. It was called NRE (les nouvelles régulations économiques) and forced all public firms traded on any of its three stock markets to report its CSR (in French, RSE, for responsabilité sociale d'entreprise) activities along with its corporate annual reports. In practice, the law affected small and private businesses too. "Large firms often use private or smaller firms as suppliers and they then had to comply with the law," Notat said. "The responsible purchasing criteria, for example, had an impact on the behavior of smaller companies."

Vigeo: The Meaning of CSR

At the beginning of the 21st century, multinational companies were questioned and regularly criticized concerning their contributions to sustainable development. More and more, they were requested to report on their engagements and their social and environmental practices. This appealed to Notat, the former leader of the CFDT:[2] "The press was getting involved in these topics—international institutions and stakeholders were starting to question companies on their activities globally," she said. "Moreover, controversies challenged companies' reputations."[3] As a respected public figure in France, Notat held an important stock of credibility with employers, investors, and unions:

> I believed it was becoming increasingly necessary to have someone neutral, from the outside, with the capacity to evaluate performance and measure businesses' commitment on social and environmental issues. This is how I came up with the idea to create Vigeo, an extra-financial agency.

Prior to the creation of Vigeo,[4] Notat had presented the idea to several of her contacts running large firms in France. She described an encounter:

> At one such meeting, I asked the CEO what he thought about the direction I was about to take. And he told me that a deep belief in CSR had nothing to do with his company, and it was not part of a duty a firm had to shareholders or employees. But he said he was a realist and told me that companies were being forced and if it had to be done, he was glad it was me leading it. He also decided to provide 1% of the needed capital to get Vigeo going.

As it turned out, several business leaders supported the concept of an independent European agency becoming a reference for rating and evaluating companies on CSR efforts (see **Exhibit 2** for investors). One of the investors came with the capital of Arèse, the first ESG rating agency in France. Vigeo took over Arèse's activities.

"It was a great surprise," Notat said, "that many executives have changed their minds about asset management." Some were skeptical regarding their capacity to attract investors because of their good CSR practices. Others—perhaps in the more traditional financial community—were feeling the pressure that CSR issues were starting to influence their markets. Notat's reputation was key. "If I had not been known by politicians and company executives, it would have been much more difficult to develop areas of the company," she said.

[2] CFDT is a trade union confederation highly regarded as being one of the most open-minded reformist unions in Europe. Notat was the first female to be elected to lead it in 1992.

[3] All quotations, unless otherwise noted, derive from case writer interviews with Vigeo employees, August 2011, Paris.

[4] Drawn from Latin, *Vigeo* meant being watchful, alert, and one who kept his or her eyes open.

The new organization's business model would be slightly different from financial rating agencies. Research from Vigeo Rating would be remunerated by investors and asset managers, not by the companies it rated. That would prevent conflicts of interest and would possibly provide more accurate information.

Socially Responsible Investors

The idea of investing in socially responsible endeavors was an older concept than CSR. Indeed, its meaning could be traced back to the early 1700s, when the Quakers refused to accept slavery as a form of human capital. They were among the first groups to launch anti-slavery campaigns, thereby insisting upon social responsibility. The application of CSR factors in investment decisions progressed from there.

As with CSR principles, the SRI market eventually evolved country by country. With time, agencies like Vigeo were created to provide investors with data surrounding firms' CSR behaviors, and nearly every country had a traditional national champion: Vigeo in France, Oekom in Germany, Sustainalytics in the Netherlands, EIRIS in the United Kingdom, and MSCI in the United States (see **Exhibit 3** for competitors). Each country's culture also marked its approach to SRI. For example, in France, there was less emphasis on exclusion criteria, such as gambling and tobacco, compared with the United States, where those criteria were more important. Former Vigeo SRI Department Director Estelle Mironesco, who had previously been an asset manager, explained:

> When I first encountered CSR research in 1997, the concept was only just starting in France. I thought that it was very interesting but did not quite see how I could take that into account as well in my job as credit analyst. A few years later, the concept had developed and was gaining increased interest from institutional investors. I could see the added value for equity and credit research. The company I was with decided to dedicate more internal resources to this type of research, and I was appointed to lead that effort.
>
> There have been different phases of SRI. The origins were the more *ethical/religious/moral* approach that started in the United States and the United Kingdom. From there, a development SRI approach was established in France, driven by a *best-in-class* approach. With this second stage, the idea being not to exclude factors like tobacco (as in ethical), but take a more holistic approach to SRI investment with the practice and behavior of companies on a different range of subjects linked to labor, the environment, and governance—data mining for the best behaved companies. The idea was that companies with good practices would be better prepared to mitigate risk, and this was the second phase. Yet SRI still was restricted to specialist funds outside traditional assets. The amount of investment was probably very small in the beginning.
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> The third stage of development is still at the beginning, which is the mainstreaming of the concept. There are really interesting signs this is starting—for example, the UNPRI [United Nations-backed Principles for Responsible Investment, an initiative that was launched in 2006], which started with 50 signatories and now has over 1,000 signatories that are asset managers or institutional investors representing USD30 trillion. Over a reasonably short period of time, they have been successful. Investors say that they are committed to integrating ESG practices into their investment decision making and ownership practices because it is part of their fiduciary duty and in the best interest of clients. That is an interesting sign to me that the overall investment community is waking up to the importance of these factors. But currently less than 10% of funds that are managed with strict ESG criteria can be called SRI funds. Still, it is a minority side of the management market.

Creating Metrics

One of the first people Notat recruited was Inspector General of Social Security for Morocco Fouad Benseddik. Notat knew Benseddik, who had a Ph.D. in political science, from her work at CFDT. Benseddik didn't become familiar with the ideas of sustainable development by thinking about the environment and about saving it for future generations, as many generally do. Instead, he became acquainted with it because of the retirement system in Morocco and the big problem of an aging population. "My double combination of academia and experience in unionism," Benseddik said, "led me to believe that CSR was the answer, from a management point of view and from an economics point of view, to the challenges companies have operating in an international context."

Still, Benseddik hesitated when Notat first approached him to join her work—it was a new area that still required definition. Yet the uniqueness of joining an enterprise whose shares would be owned by companies, asset managers, investors, financial institutions, unions, and NGOs was intriguing, and he eventually decided to move to France and join Notat.

By 2002, Notat had established the Vigeo office in a Paris suburb and Arèse employees were relocated to it. Vigeo put out an advertisement seeking more employees and within six weeks had over 500 candidates.

As Notat and Benseddik began to examine spreadsheets about firms Arèse had assessed, it was unclear why the topics that formed the basis of its CSR analysis had been chosen. "I asked an analyst which was the best company in Europe's telecommunications sector and then why," Benseddik said. "When I was told who and asked the analyst to explain why, the reply was 'because it is my opinion.'" Those kinds of exchanges had Notat and her leadership team raising the question of whether it would be possible to build a universal definition of CSR. Benseddik recalled:

> During one of our conversations, I said, "Okay, say I have a company, and I like to avoid tobacco [and] alcohol, I avoid weapons, I avoid gambling, pornography, and so on. But is that enough to be socially responsible?"
>
> Further, what does it mean to have diversity in companies? And what does diversity mean? Diversity in the United States cannot be the same as the diversity in South Africa. It's not the same. At the time the indicators we had around diversity wouldn't work as a global measure. How is it possible to bring Hispanics to the board of a company in South Africa? And this is how we started to build a methodology to assess the CSR performance of companies.

Stage one methodology

As Notat's team members saw it, they had three challenges ahead of them: (1) developing an international CSR definition; (2) creating a reliable assessment methodology; and (3) gaining widespread acceptability of their definition of CSR. As they worked in teams trying to define CSR, Benseddik continually found himself asking *why*. So, for example, when considering that gambling was not a responsible method of making money, he asked why a firm involved in gambling would not be a responsible one. Was it possible for a company to be involved in gambling and, at the same time, be responsible to all its workers, clients, and so on? And once he heard justifications, Benseddik would ask, "In the name of what should I consider that gambling is bad? In the name of what should one consider that CO_2 reduction is a responsible action?" He explained further:

> By example, take greenhouse emissions. If you say to the Japanese that you have to act ethically if you want to win in the marketplace, they would say no. They consider that doing good should be an end in itself and it should not be something you use for commercial business ends—that we should respect

> nature, the environment, because that is what life is about and we shouldn't be doing it because of economic interests to make money.
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> In most of the older conceptions of CSR, the cultural factor was very important. CSR was defined as stakeholder identification and management having a formalized relationship with stakeholders.
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> And this may work in some cultures where there are strong points of relationships between companies and the local communities, for example, with the Quakers in the United Kingdom. But imagine a manager that arrived at work in the morning and said, "Today I am going to meet with our NGO stakeholders and tomorrow with our investor stakeholders, and the next day with our supplier stakeholders"—it's impossible. There are many countries where stakeholders are not free to organize themselves or they are represented by people who are not representative. So if you take the Protestant model of dialogue, with local communities and stakeholders, and apply it to certain Asian or Latin cultures, where the state is the body that controls these kinds of things, not their local communities, it's not really going to work. CSR is the daughter of globalization!

Thinking about the world stage and exploring the idea of worldwide principles or universally accepted norms, the Vigeo team looked to the *United Nations Universal Declaration of Human Rights* and the *International Covenant on Economic, Social and Cultural Rights*. Both documents were instruments adopted by the United Nations as the base definition of social responsibility for humans, states, and groups and were recognized by the majority of the world's governments. Working in groups that included Vigeo employees and advisers from the scientific community (a diverse group of academics from around the world), the framework for an international definition of CSR was extracted from the UN documents. "After realizing that CSR is about respecting human rights, we realized it was also related to human resources," Benseddik said. "And it was also related to business behavior."

Eventually six domains were defined: *human rights, human resources, business behavior, corporate governance, environment, and community involvement*. The work groups were then divided into six task forces, each one dedicated to a single demand. Within each group, members had to think of the different criteria representing the interests of a category of stakeholders for each demand. Again, the test for each proposition was, "in the name of what?" So, for example, when one participant in the human rights group said that selling weapons was not socially responsible, Benseddik asked, "In the name of what?" He said:

> Weapons can preserve democracy, can preserve peace, so it depends to whom you sell weapons and what the context is. If we look to international laws about selling weapons, we find that some weapons are forbidden—such as cluster munitions.

Each criterion was tied to whether or not there was an international law or norm that suggested a company should react in each way. That methodology was used over and over again for each of the six demands (later referred to as *domains*), and, within a year, 38 criteria (later called *sustainability drivers*) were finalized (see **Exhibit 4** for evaluation criteria). "It became a collaborative project that created a methodology and a corporate identity for Vigeo at the same time," Benseddik said. And in the end, it was agreed that CSR was not an obligation, a duty, a charity, or a legal requirement; instead, it was a voluntary behavior based on commitment from the company. The Vigeo standard definition of a socially responsible company became this:

> A "socially responsible company" is one that not only fully complies with the obligations of applicable legislation and conventions, but one that accounts for how it integrates social and environmental factors into its global strategic decision making, policies and practices.[5]

Stage two methodology

As the company launched into its business, Vigeo salespeople discovered an interesting twist: Clients and consumers didn't understand some of the language they used. "We were so involved in the methodology that we forgot that words like *criteria* meant different things in scientific methods and business jargon," Benseddik said. "The salespeople realized they had to readapt these concepts, and so *criteria* were changed to *sustainability drivers*, which were now in a language people understood."[6]

The other substantive change the organization made to the rating model included adding *risks performance* to the definition of CSR. Including risk as part of the assessment acted as a bridge for connecting CSR with finance. The Vigeo team wanted to bring proof to the market that CSR was something that mattered financially—that a firm's reputation mattered financially, that human capital cohesion mattered financially, that legal security mattered financially. Vigeo believed that when a corporation committed to take into account its stakeholders' expectations or rights, the company limited risks and created the opportunity to improve its efficiency, reputation, credibility, legal security, and so on—it was a managerial process. The Vigeo standard definition of CSR became this:

> Corporate social responsibility is defined as a managerial commitment according to which the rights, interests and expectations of the stakeholders are considered, and which aims at the continuous improvement of its performance and risk control.[7]

With a definition agreed upon, domains created, and goals set, the question became how to pursue these principles or goals. Was it enough for executives to say their firms were committed to respect human rights—or that they were committed to reduce the greenhouse gas emissions by a certain percentage? The Vigeo team worked to develop an approach to assess and analyze firms' commitment to ESG issues. "Political science is very useful in managerial analysis," Benseddik said. "There are methodologies to analyze political parties and governments that, while not absolutely the same when it came to companies, offered numerous similarities."

The team decided to look at three levels of analysis: the *relevance of the leadership*, the *efficiency of the implementation*, and the *efficacy of the results*. Scores for those criteria varied, from 0 to 100 (see **Exhibit 5** for scoring), and, conventionally, four levels were chosen. "Generally people use three or five levels when scoring, and analysts will more often than not choose one in the middle—they get lazy," Benseddik said. "When there is no middle to choose, it forces people to think harder; at the very least, it avoids the middle-ground option for ease of scoring."

Relevance of the leadership. Under the leadership dimension, it was decided to first question the visibility of the commitment—was it visible in any manner? What types of policies were in place, what did the content look like, and who was accountable for it? The team developed a line of questioning that included a series of detailed questions such as "Can stakeholders see it?"

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[5] Vigeo, "Corporate Responsibility," http://web.archive.org/web/20061015185908/http://www.vigeo.com/site.php?rub=3&lang=en (accessed Jan. 17, 2012).

[6] Essentially the concept of sustainability was linked to CSR in that both were development strategies that involved meeting present needs without compromising future generations' ability to do the same with regard to the environment, society, and economics.

[7] Vigeo, "What Is CSR?," http://www.vigeo.com/csr-rating-agency/en/rse-la-rse/blog (accessed Mar. 8, 2012).

Efficiency of the implementation. The second level was based on content: were principles of action included in the firm's commitments? Vigeo looked to the process and implementation and systematically asked questions about the coverage of commitment, because it was one thing to commit to do this and that, but only for the headquarters in Europe. For example, analysts would look to see to what extent a European company behaved globally as Europeans—and not as an Asian company in Asia or as an African company in Africa or as an American company in America. Benseddik explained:

> I give you the example of a tobacco company headquartered in the United States. Now, it's very difficult for tobacco sellers to advertise their products in the United States and some parts of Europe. But when you go to Africa, you'll find them with unlimited publicity, so we could consider that to be a problem to their ESG commitment. For instance, if the corporate principles on marketing and promotion required that there be no suggestion that the physical attractiveness or good health of the person in the ad were due to tobacco use, but in Africa there was such an ad, what does that say?

Efficacy of the results. If the tobacco example were discovered to be true, that did not necessarily mean all bad news for the company on Vigeo's CSR rating system. That was where the third level—results—became instrumental to the analysis. Results could be quantitative data that supported a firm's stated policy or they could be from stakeholder information about controversies. For instance, if a stakeholder brought the advertising campaign in Africa that violated corporate policies to corporate leaders' attention, Vigeo looked for the company's responsiveness to the stakeholder. Did the company immediately adopt a strong corrective measure, did it not say anything, or did it deny it? Within the Vigeo scoring system those actions scored points according to this scale:

1 pt. = Deny/say nothing

2 pt. = Acknowledge

3 pt. = Adopt corrective measures

4 pt. = Adopt corrective measures in partnership with stakeholders

Vigeo Rating

On the rating side of the company, there were three times that analysts interacted with the firms they were rating. They first contacted the company three months before the start of the rating process in order to inform companies of the rating. Once they analyzed accessible material from publicly published reports (e.g., annual and sustainability reports), press articles, and material that other stakeholders (e.g., unions and NGOs) provided, the analysts would send a number of questions to the company directly. Questions were related to information that was missing from the firm's public reporting, to material that was not readily found or was too vague, to come to a definitive conclusion on the company's performance. Analysts might also ask companies about their position and/or corrective measures they had implemented when faced with controversies, allegations, or condemnations. Firms originally had 15 days to respond; that number increased to 21 in 2013 to give a longer response window. At first, Vigeo analysts mainly contacted investor relations personnel, but increasingly companies appointed direct contacts who were either in charge of sustainable development policy, CSR policy, or of answering to rating agencies such as Vigeo. "If the company doesn't want to answer the questions or collaborate, it might be linked to the fact that they consider that information in the public place is fairly reflecting their CSR commitment or that they are uninterested in receiving investment from ESG investors," said Emilie Béral, current SRI research director at Vigeo. She continued:

> Either way, we do provide investors and asset managers an opinion based on publicly available information. The companies are not our clients. In line with our definition of corporate social

> responsibility, companies are expected to provide stakeholders with evidence that they are actually integrating their legitimate ESG expectations into their strategies, in a perspective of risk mitigation and creation of opportunities.

Analysts examined information from all these different sources and then used Vigeo's methodology to come up with an opinion on a company's performance on the six domains. Whether or not a company provided answers, the team of analysts who worked on the sector met to ensure that information had been treated uniformly from one company to another. That step was fundamental in delivering high-quality research to Vigeo's clients.

Firms in each sector were not scored on all 38 sustainability drivers. The generic framework could be customized to take into account the type of business an organization conducted—the impact on ESG issues would not be the same. Former Research Manager Manon Jolivet explained:

> We have software tools that allow us to customize our analysis to company sectors. For instance, one of our sustainability drivers assesses a company's commitments to improve the health and safety of their employees. In the chemicals sector, health and safety of employees is very sensitive. This importance is reflected by several international reference texts, such as ILO [International Labour Organization] conventions on health and safety or the OECD [Organisation for Economic Co-operation and Development] Guidelines for Multinational Enterprises. Also, tasks performed in the chemicals companies often involve dangerous substances and hazard risks and thus make employees highly vulnerable to this risk. So, for sure, that driver would be included in our analysis and highly weighted. But it is not as material to banks—the risk of injury or pollutants is not at the same level on a day-to-day basis as a chemicals company. Each of our 38 sustainability drivers are weighted from 1 to 3 or deactivated when not relevant. Justification for weights or deactivation are systematically traced and explained to clients in our software tools.

Once the coordination meeting was finalized, a draft report was sent to the company, which was the third point of contact between analysts and the company. The firm could take this opportunity to review the report for any factual errors before it was sent to investors and asset managers. Companies were given five days to read the report and then the finalized ratings were aggregated with other companies in the sector. Company reports were combined into sector studies, and Vigeo also generated analysis of the best companies in each domain. In the end, investors received scores and ratings for each company they requested along with the sector study.

By 2015, Vigeo Rating had 80 analysts analyzing companies in four regions—Europe, North America, Asia Pacific, and Emerging Markets (or Rest of World)—to rate their ESG performance. Primarily, they followed the Russell Index with an aim to rate all companies listed worldwide. In addition to following firms on the Russell Index, Vigeo had a full range of indices with Euronext, including a Euronext Vigeo World 120, Euronext Vigeo Europe 120, Euronext Vigeo Eurozone 120, Euronext Vigeo US 50, Euronext Vigeo France 20, Euronext Vigeo United Kingdom 20 and Euronext Vigeo Benelux 20, all of which select the best companies according to the index region, taking account of global score, domain score, and exposure to controversy. This index range was updated every six months. Analysts were specialized by industry (the firm covered 36 industries) and domain (6), so, for instance, an analyst who specialized in pharmaceuticals and in corporate governance provided two axes of competency and expertise. Each company was reevaluated every 18 to 24 months.

The Second Business Line: Vigeo Enterprise

Creation of Vigeo Enterprise, the second branch of the company, was spurred by investor interest in CSR issues; firms and organizations being rated wanted to know what they could do to perform better in that regard. What started out as a small department dedicated to companies and local authorities (as opposed to investors and asset managers) ended up becoming, in 2003, a separate business unit.

The original six-person team spent the first six months doing research and developing a methodology that eventually became known as "tools." The tools were tested on a large public company and two privately held firms. Samuel Dufay, former production manager at Vigeo Enterprise, and a member of the original team, recalled the development period:

> One of the test firms was a public company with formal procedures and written processes that looked very transparent and wasn't far from what we expected. But when we started working with a company in heavy construction, it was totally different from what we expected. In this context, you have to gain very different access to how they operate, because if you asked, "How many human rights policies are formalized?" the answer would be, "No human rights policies are formalized." But would you conclude this company did not care about human rights issues? No, you have to go on site and see how people react and try to go further to see if a lack of formalized policy really created a *risk* for that company.
>
> I remember having very heated debates with the management of the company. The CEO was really interested in human rights and maybe more open to this kind of debate. I remember he was trying to assess the risks to be able to decide what he had to do. Imagine a CEO of this kind of structure, composed of 230 small business units and 20,000 employees; very little information comes up to him from business units except financial results and two or three key indicators like safety, etc. But he didn't know what happened in the field. And given that experience, we had to go back and work on our tools.

So Dufay and the rest of the team factored into their analysis the need to incorporate site visits to bring information to senior executives that they often didn't have before the audit.

Between 2003 and 2006, the CSR audit was Vigeo Enterprise's only product, but clients continued to ask for more than audit services; they wanted consulting and training to accompany the audit. Essentially the Vigeo brand changed along with its clients—four or five years earlier, many CEOs had been unsure of what exactly CSR was, and the audit was a tool to better understand how CSR brought value to companies. With time, they wanted to develop action plans, offer another point of view to communicate to stakeholders, and respond to controversy. As the market matured, so did the services Vigeo Enterprise offered. By 2015, rating remained the core business (at 60% to 70%); yet consulting had grown from 10% to 30%.

Not everyone was convinced of Vigeo's argument that it was necessary to take CSR factors into account in their businesses. A senior executive of an insurance company challenged the idea of environmental factors, believing that firms such as Vigeo wanted everyone to drink their coffee from nondisposable cups or carry reusable bags. While those kinds of efforts were not discouraged, Vigeo promoted CSR as a matter of strategy—for instance, asking companies if they had a range of service products that could help clients to be more efficient in the environment. In the insurance industry, for example, was there a special insurance product for people who had more energy-efficient cars? Dufay explained:

> With our methodology, we build our opinion through a very tight dialogue with company managers. If we see something we believe is a risk, we discuss it with managers through the process. A big part of the job is to always be ready to help clients understand CSR. We are not regulators. We ask for

> confidential documents and render an opinion, but when we do that, we must not judge them; it is not punitive.

Some firms decided to publicly share the results of their Vigeo audits and others did not.[8] Describing one firm that disclosed its first Vigeo Enterprise audit, Dufay said, "It was quite risky; the firm was good at about six or eight objectives, but there were at least four where it fell short." Still, the company told journalists, "We are not good about climate change, and we know that, and we are going to do better." With time, some managers in the private sector viewed CSR as a tool to gain a better image with local authorities about their ability to do the job well while being sensitive to social and environmental aspects of their businesses.

> For the most part, by 2014, publicly listed companies published their strategies and efforts around CSR on their websites (80% in 2011). That was a sharp contrast to 14 years earlier, when only 40% of publicly listed companies made this information available, according to Notat.[9] The most commonly reported information was around corporate governance, and the least likely indicators to be reported were around workers' hours and restructuring efforts. And firms were more likely to report their CSR targets than their results. In addition, the accessibility of information was dependent on the industry and the geographic location of the company.

Conflict of Interest

The firm's methodology depended on who asked for its services—investors or companies. For that reason, Vigeo Rating and Vigeo Enterprise had a barrier—the "Chinese wall"—between the divisions, which were located on different sides of the building. The analysts were on the left side and the auditors were on the right side of the hall (see **Exhibit 6** for a photo). Auditors signed confidentiality agreements with clients and housed confidential information about firms on their computers. None of the rating-side ESG analysts had access to information on the Enterprise computers or databases. All employees signed a code of conduct contract in which those on the Rating side agreed not to ask for access to Enterprise information. That ensured that market-sensitive information did not leak from the auditing side to the rating arm of the firm. Notat described the issues:

> I really wanted both the rating and auditing activities to work. I wanted to attack the problem on both fronts—the investor side and [the] company behavior side. That is why there is a Chinese wall. You recognize there could be, theoretically, a conflict of interest but make sure that doesn't happen practically. Obviously opponents and rivals make the best out of the possibility of a conflict of interest to attack Vigeo. We have a scientific council if there is a conflict with a rated company, and they give their opinion on our methodology, but in general it doesn't happen.
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> The second is that some companies that have shares in Vigeo are also companies that are assessed. This could have been a dangerous thing for the company. For example, McDonald's and Total. I could have avoided getting these companies involved in shares of Vigeo but it wasn't Vigeo's place to be judging them when they were interested in the project. Many have questioned Vigeo's independence and the contradiction of being involved in CSR and in companies that are not considered models on that front. Our job is to identify CSR risks, not judge.

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[8] Bristol-Myers Squibb was a client that chose to disclose its indicators and results: http://www.bms.com/sustainability/Issues/Pages/default.aspx (accessed Jan. 18, 2012).

[9] Vigeo looked at reports from 700 multinational companies between 2007 and 2009 in a study called "CSR: What Do Companies Report On?," http://www.vigeo.com/csr-rating-agency/en/rse3 (accessed Mar. 15, 2012).

There were several safeguards in place to prevent conflicts of interest between Vigeo investors and the work the company did. For example, company investors were limited to less than 1% of total capital (EUR17 million), and the board composition was as mixed as possible; there were five independent directors and three directors each from trade unions, corporations, and asset management companies. By 2012, 46% of Vigeo shareholders were asset managers and pension funds, 27% were trade unions, and 27% were corporate (see **Exhibit 7** for Vigeo's organizational chart). Despite the precautions, competitors and the press loved to ring the conflict-of-interest alarm.

Beyond Vigeo Rating and Vigeo Enterprise

A new market was evolving in the CSR world that was linked to the issuance of debt and financing for future projects. Companies were exploring how they could demonstrate leadership and sought a body to provide an independent and credible opinion on their project financing and debt raising activities. "This was somewhere around 2012 when French companies starting to explore this were saying: 'we need an external view in order to bring some credibility to what we're doing,'" said Lindsay Smart, head of Vigeo UK and U.S. markets. "And because Vigeo is so strong in France, could you do something? How would you do it and how would you structure it?"

The request was about a fairly new asset class called green bonds, whose proceeds generated money for sustainability projects. The bonds were issued by governments, businesses, or banks and repaid investors with a fixed or variable rate of return over a predetermined number of years. An independent second party was needed to provide an opinion on the sustainability of the project(s) the bond covered. Notat was confident that Vigeo was well suited to provide an independent perspective. She and her team took steps to formally link all green bond activity to the methodology department so it could work on a formal template and structure to define the content of Vigeo's opinion. By 2014, Vigeo had provided seven independent second-party opinions on green bonds. For example, in July 2014, Vigeo delivered an independent opinion on a "century green bond" issued by DC Water and Sewer Authority (DC Water) in the United States to raise funds to finance a project to build infrastructure and water pumping systems to transport wastewater overflow to DC Water's water treatment plant. As one executive said, "Vigeo's support for our extra-financial rating has been a strong credibility factor prior to this bond issue.[10]

Moving Ahead

Looking forward, Notat was well aware that it was important to think about the company's development and decide upon the best choices. She had formed the company with EUR17 million, which had been enough capital to sufficiently develop the company over the years without having to worry about another round of funding. Vigeo broke even for the first time in 2007. The 2008 financial crisis took a chunk out of the Vigeo Enterprise earnings and was responsible for two years of losses, but the firm broke even again in 2010, when revenues reached roughly the EUR8 million mark. Roughly two-thirds of revenue came from Vigeo Rating and one-third from Vigeo Enterprise.

The future aim included being recognized internationally and gaining a global reputation. An overall goal was to be the main player among the top three global players in CSR rating. Notat had a board to answer to and interest in growing the business was high. The market was very different from how it was 15 years earlier when Vigeo was starting out. It was consolidating, and Notat expected that trend to continue. Investors were

[10] Laurent Machureau, directeur général adjoint finances, Ile de France, http://vimeo.com/100092077 (accessed Sept. 2, 2014).

increasingly expressing more interest in emerging markets. "Inside emerging markets, *local* investors are interested in ESG analysis," Notat said.

Up until roughly 2012, the company had grown in markets where its criteria fit. Since then, Notat and the board decided to push into regions where that might not have been the case. Many in the United States, for example, might agree that Vigeo's criteria had validity based on the UN declaration but wanted to be able to customize those criteria to reflect the ratings that U.S. companies and investors would like to use. There was also increased interest in second-party opinions on green sustainability bonds that would generate extra revenue.

Determining the paths for Vigeo's future growth would continue to come back to the firm and its leaders' underlying philosophy and metrics and the extent to which they should or should not customize for local market consumption.

Exhibit 1

Vigeo and CSR—The Daughter of Globalization

Global SRI Data

(in billions)	Australia/ New Zealand	Canada*	Europe**	Japan**	United States	World Total
2007 total in local currency	AUD72	CAD503	EUR2,665	JPY840	USD2,710	
2007 total in U.S. dollars	82	492	3,892	8	2,710	**7,202**
2007 total in euros	41	333	2,665	5.5	1,917	6,328
2010 total in local currency	AUD93	CAD609	EUR4,986	JPY579	USD3,069	
2010 total in U.S. dollars	93	615	6,532	6.9	3,069	**9,949**
2010 total in euros	58	405	4,986	4	2,141	7,594

*** = 2006 and 2008 figures**
****= 2009 figures for 2010**

Data source: Compiled from Eurosif, "Global SRI Data," *European SRI Study 2010 and 2008* and exchange rates as of end of December 2010 and 2007 from the Federal Reserve Bank of New York, http://www.newyorkfed.org/index.html (accessed Mar. 15, 2012).

Exhibit 2

Vigeo and CSR—The Daughter of Globalization

Investors

Asset and Pension Fund Managers (55%)			
Amundi		Candriam Luxembourg	
AG2R		Inter Expansion (Ionis)	
BPCE (35%)		Lazard Frères Gestion	
Caisse des Dépôts et Consignations		Macif	
Confederacion Espanola de Cajas de Ahorros		Ofivalmo	
Crédit Coopératif		S2G	
Trade Unions and CSR-Measuring Entities or Persons (19%)			
CC.OO Confederación Sindical de Comisiones Obreras (Spain)		Fouad Benseddik	
CFDT Confédération Française Démocratique du Travail (France)		Nicole Notat	
CISL Confederazione Italiana Sindacati Lavoratori (Italy)		UGTE Union General de Trabajadores (Spain)	
CSC Confédération des Syndicats Chrétiens (Belgium)		UGTP União Geral dos Trabalhadores (Portugal)	
Federico Versace		Vincent Brouchet	
Forum Ethibel (Belgium) (14%)			
Companies (26%)			
Air France	BNP-Paribas	McDonald's	Suez
Airbus	Carrefour	Orange	Technicolor
Airbus Group	COGAC (GDF)	Renault	Thales
Alcan	Crédit Lyonnais	Rhodia	Royal Bank of Scotland
Alcatel	Danone	Saint-Gobain	Total
Allianz-Vie	Edev (EDF)	Schneider Electric	Veolia
ArcelorMittal	Financiere Lafarge	SNCF	Vinci
Aventis Pharma	HSBC	Solvay SA	
AXA	Manpower	Spie	

Data source: http://www.vigeo.com/csr-rating-agency/en/1-2-4-gouvernance (accessed Mar. 17, 2014).

Exhibit 3

Vigeo and CSR—The Daughter of Globalization

Global CSR Rating Agencies 2011

Agency	Home Country	Offices	Indices	Employees	Partners
EIRIS	Great Britain	Paris Boston	FTSE4Good Index Series	60	CAER (Australia), ECODES (Spain), Ecovalores (Mexico) Greeneye (Israel), Imug (Germany), KOCSR (South Korea)
INrate*	Switzerland	Fribourg Zurich	-	32	Groupe Investissement Responsable (Canada), SIRIS (Australia), EthiFinance (France), Solaron (India)
MSCI ESG Research**	United States	New York Toronto Manila Mumbai	MSCI ESG Indices	120	Part of Morgan Stanley Capital International (United States)
Oekom	Germany	Paris	Global Challenges Index	44	
Sustainalytics	The Netherlands	Boston Brussels Copenhagen Frankfurt Madrid Paris Toronto Timisoara	Jantzi Social Index, STOXX Global ESG Leaders Indices	90	Sustinvest (South Korea)
Vigeo	France	Brussels Casablanca London Milan Tokyo Santiago	Vigeo Euronext, Ethibel Sustainability Index	101	UNI Global Union (Switzerland), Finergie, Novaster (Spain), ISR (Spain, Portugal), Morningstar (United States)

*merged with Centre info in 2010.
**merged with RiskMetrics in 2010.

Data source: Recherche Novethic, "Panorama des Agences de Notation Extra-Financière," September 2011, http://www.novethic.fr/novethic/upload/etudes/20120223_Panorama_Agences_Notation_extra-financiere.pdf (accessed Mar. 7, 2012).

Exhibit 4

Vigeo and CSR—The Daughter of Globalization

Vigeo Evaluation Criteria

Corporate Governance	Business Behavior	Environment	Human Resources	Human Rights	Community Involvement
• Board of directors • Audit and internal controls • Shareholders' rights • Executive remuneration	• Product safety • Information to customers • Responsible contractual agreement • Integration of environmental factors in the supply chain • Integration of social factors in the supply chain • Prevention of corruption • Prevention of anti-competitive practices • Transparency and integrity of influence strategies and practices* • Sustainable relationships with suppliers	• Environmental strategy and eco-design • Pollution prevention and control • Development of *green* products and services • Protection of biodiversity • Protection of water resources • Minimizing environmental impacts from energy use • Management of atmospheric emissions • Waste management • Mangement of environnemental nuisances: dust, odor, noise • Management of environmental impacts from transportation • Management of environmental impacts from the use and disposal of products/services	• Promotion of labor relations • Encouraging employee participation • Responsible management of restructurings • Career management and promotion of employability • Quality of remuneration systems • Improvement of health and safety conditions • Respect and management of work hours	• Respect for human rights standards and prevention of violations • Respect for freedom of association and the right to collective bargaining • Non-discrimination • Elimination of child labor	• Promotion of social and economic development • Social impacts of company's products and services • Contribution to general interest causes

*criterion added in 2011.

Source: Vigeo (used with company permission).

Exhibit 5

Vigeo and CSR—The Daughter of Globalization

Question Scoring

0	30	65	100
•Little evidence of commitment •Poor to very poor guarantee of risk management	•Commitment initiated •Poor to moderate guarantee of risk management	•Consolidated commitment •Reasonable guarantee of risk management	•Advanced commitment •Social responsibility objectives actively promoted

Source: Vigeo (used with company permission).

Exhibit 6

Vigeo and CSR—The Daughter of Globalization

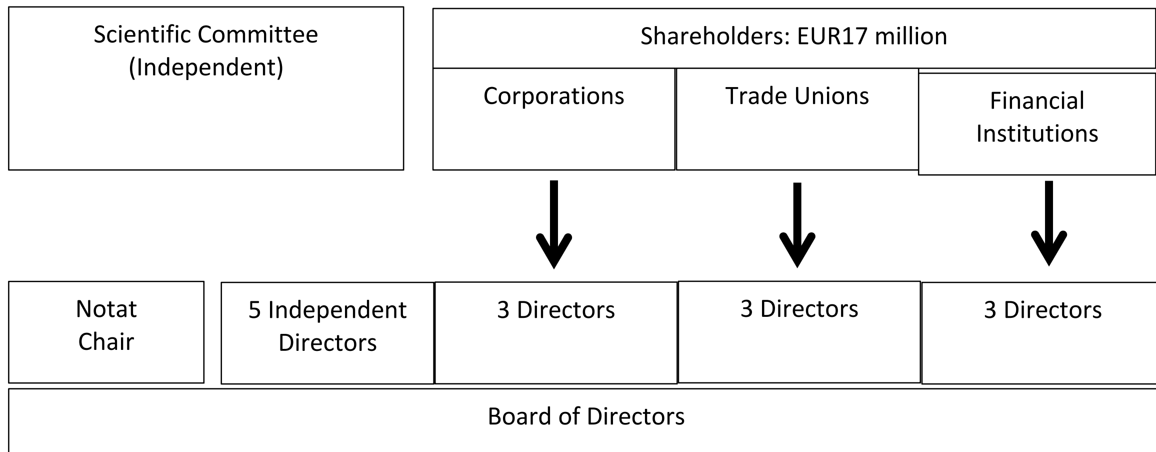
Vigeo and the Chinese Wall

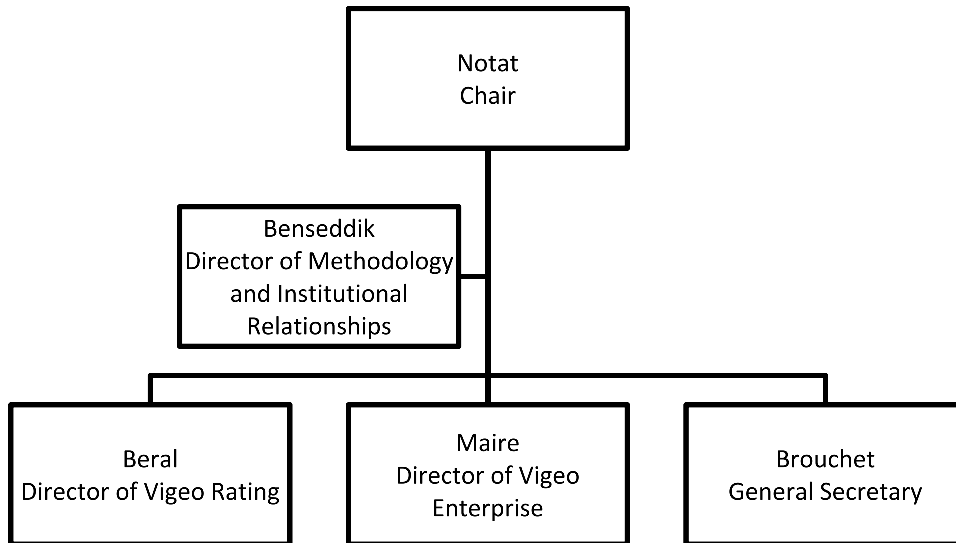
Source: Case writer.

Exhibit 7

Vigeo and CSR—The Daughter of Globalization

2015 Vigeo Organizational Chart





Source: Vigeo (used with company permission).