The “Business End” of High Performing E-S-G Companies

USF Patel College of Global Sustainability
September 5, 2018
Potential “Take Aways” for you!

• An understanding of how companies with strong global environmental stewardship also have strong long term financial performance.

• What helps define social contribution for global companies and how that shapes their financial performance.

• Thoughts on corporate governance – why it matters, how integral governance influences long term financial performance, and more importantly shapes shareholder trust.
Some questions:

• Who has some level of knowledge on the topic of E-S-G and long term financial performance?

• How many here think high performing E-S-G companies are also highly sustainable?

• Can E-S-G be a corporate proxy for sustainability?
Some questions:

• Who has some level of knowledge on the topic of E-S-G and long term financial performance?
• How many here think high performing E-S-G companies are also highly sustainable?
• Can E-S-G be a corporate proxy for sustainability?

ANSWER to all three questions: *It depends............
However the literature shows the measures and metrics move from objective to the subjective for the E-S-G value chain*
What defines strong Environmental Performance in a corporation?

• Is it an absence of notices of violation?
• Is it greatly dependent on the nature of the company?
• Is it the company’s carbon footprint?
• Is it the company’s supply chain and the resources that are used in that supply chain?
• Is the company’s policy with respect to the natural environment?
• Is it the nature of its services or products?
• Is it an understanding that its environmental stewardship is just one leg of its sustainability?
Newsweek’s Methodology & Key Performance Indicators for strong Environmental Performance

**Methodology (How)**
- Transparency
- Objectivity
- Public availability of data
- Comparability
- Engagement with eligible companies
- Stakeholder Inclusion

**Key Performance Indicators (What)**
- Combined energy productivity score
- Combined GHG Productivity score
- Combined Water Productivity score
- Combined Waste Productivity score
- Green Revenue Percent Range
- Sustainability Pay Link
- Sustainability Board Committee
- Audited Environmental Metrics
- Monetary fines paid or payable
- Product/services category discount
Example - Environmental Performance*

- #1 in the US for 2017
- #5 Globally for 2017

**Cisco**

Industry – Communications Equipment  
Country – United States  
Green Score – 83.70%  
Energy Productivity Score – 100%  
Carbon Productivity Score – 61.50%  
Water Productivity Score – 75.00%  
Waste Productivity Score – 81.30%  

Other companies with Strong Environmental Performance*

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Score</th>
<th>Country</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>L'Oreal SA</td>
<td>89.90%</td>
<td>France</td>
<td>Consumer Staples</td>
</tr>
<tr>
<td>2</td>
<td>Centrica PLC</td>
<td>88.70%</td>
<td>United Kingdom</td>
<td>Utilities</td>
</tr>
<tr>
<td>3</td>
<td>Enbridge Inc</td>
<td>86.00%</td>
<td>Canada</td>
<td>Energy</td>
</tr>
<tr>
<td>4</td>
<td>Siemens AG</td>
<td>85.30%</td>
<td>Germany</td>
<td>Industrials</td>
</tr>
<tr>
<td>5</td>
<td>Cisco Systems Inc</td>
<td>83.70%</td>
<td>United States of America</td>
<td>Information Technology</td>
</tr>
<tr>
<td>6</td>
<td>Henkel AG &amp; Co KgaA</td>
<td>82.60%</td>
<td>Germany</td>
<td>Consumer Staples</td>
</tr>
<tr>
<td>7</td>
<td>Accenture PLC</td>
<td>82.50%</td>
<td>Ireland; Republic of</td>
<td>Information Technology</td>
</tr>
<tr>
<td>8</td>
<td>BT Group PLC</td>
<td>82.50%</td>
<td>United Kingdom</td>
<td>Telecommunication Services</td>
</tr>
<tr>
<td>9</td>
<td>Adidas AG</td>
<td>79.60%</td>
<td>Germany</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td>10</td>
<td>Koninklijke Philips NV</td>
<td>77.90%</td>
<td>Netherlands</td>
<td>Health Care</td>
</tr>
</tbody>
</table>

What defines strong Social Performance in a corporation?

- Is it how it works with the communities where it is present?
- Is it about how it provides benefits and compensation?
- Is it about the economic impact it has where it operates?
- Is it about its supply chain and where its resources come from?
- Is it about how it treats its employees?
- Is it about how you as a customer or client are treated?
- Is it about its responsibility to the local governmental authorities?
Measuring Reputation and CSR: The RepTrak® Model

REPTAK® DIMENSIONS
Cognitive Considerations
- PRODUCTS & SERVICES
- INNOVATION
- WORKPLACE
- GOVERNANCE
- CITIZENSHIP
- LEADERSHIP
- PERFORMANCE

REPTAK® PULSE
Emotional Connection

SUPPORTIVE BEHAVIORS
Reputation Outcomes
- PURCHASE: +8.0%
- RECOMMEND: +8.2%
- CRISIS PROOF: +7.3%
- VERBAL SUPPORT: +8.0%
- WORK: +8.1%
- INVEST: +6.3%

THINK

FEEL

ACT

Used with permission as a member
Example of a High Performing Social Corporation*

#3 Has a positive influence on society
#1 Behaves ethically
#1 Is fair in the way it does business
#1 Is open and transparent about the way it operates
#1 Acts responsively to protect the environment
#1 Supports good causes
#2 Demonstrates concern for employees
#2 Rewards employees fairly
#2 Equal opportunities in the workplace

CSR Index 74.4
Forbes.com/Strauss – 170,000 company ratings from 15 countries

Key – sustainable materials center and embraces social responsibility top to bottom

*https://www.reputationinstitute.com/resources/registered/pdf-resources/2017-global-reptrak-most-reputable-companies-in.aspx
Other companies with Strong Social Performance

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>2017 CSR RepTrak®</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LEGO Group</td>
<td>74.4</td>
</tr>
<tr>
<td>2</td>
<td>Microsoft</td>
<td>74.1</td>
</tr>
<tr>
<td>3</td>
<td>Google</td>
<td>73.9</td>
</tr>
<tr>
<td>4</td>
<td>The Walt Disney Company</td>
<td>73.5</td>
</tr>
<tr>
<td>5</td>
<td>BMW Group</td>
<td>71.5</td>
</tr>
<tr>
<td>6</td>
<td>Intel</td>
<td>71.1</td>
</tr>
<tr>
<td>7</td>
<td>Robert Bosch</td>
<td>71.0</td>
</tr>
<tr>
<td>8</td>
<td>Cisco Systems</td>
<td>71.0</td>
</tr>
<tr>
<td>9</td>
<td>Rolls-Royce Aerospace</td>
<td>70.7</td>
</tr>
<tr>
<td>10</td>
<td>Colgate-Palmolive</td>
<td>70.4</td>
</tr>
</tbody>
</table>
What defines high performing Governance in a corporation?

• Is it CEO’s compensation?
• Is it the degree of separation between the Chairman and the CEO?
• Is it the independency of its directors?
• Is it the diversity of its directors?
• Is it about the way profits are reinvested or dividends are paid?
• Is it the structure of the board committees?
• Is it the level of transparency for its operations?
• Does it have to do with the company’s supply chain?
• Is it about the way it manages risk?
How is Governance* best understood?

Using the guidance of the Investor Stewardship Group, the Governance attributes are categorized under four pillars:

• Board Composition; Board Committees; Shareholder Rights; Transparency.

Both the internal and external research teams further scrutinize the nominations through a thorough analysis of 120 governance factors which, in turn, is supported by a robust set of key performance indicators.

The Ethical Board Room and ISG use a two phase process.

• All candidates go through a due-diligence process which will separate the strong from the weak.

• Selectees sent a questionnaire that has to be answered and returned within seven days, along with an executive summary and any supporting documents.

This will all be scrutinized through a detailed analysis of 120 governance factors combined with a robust set of key performance indicators.

• [https://isgframework.org/corporate-governance-principles/](https://isgframework.org/corporate-governance-principles/)

*Note: Governance refers to the system of checks and balances in place for managing a company. It encompasses the processes, structures, and mechanisms by which organizations are directed and controlled. The principles of good governance are intended to ensure that organizations are managed in a fair and transparent manner, with the interests of stakeholders, including shareholders, taken into account. Governance principles typically include aspects such as ethical behavior, transparency, accountability, and the protection of stakeholder rights. The guidance provided by the Investor Stewardship Group (ISG) is a widely recognized framework for best practices in corporate governance.
ISG*Principles for high performance corporate governance

Principle 1: Boards are accountable to shareholders.
Principle 2: Shareholders should be entitled to voting rights in proportion to their economic interest.
Principle 3: Boards should be responsive to shareholders and be proactive in order to understand their perspectives.
Principle 4: Boards should have a strong, independent leadership structure.
Principle 5: Boards should adopt structures and practices that enhance their effectiveness.
Principle 6: Boards should develop management incentive structures that are aligned with the long-term strategy of the company.

https://isgframework.org/corporate-governance-principles/
## North American corporations* by industry determined to have strong governance

<table>
<thead>
<tr>
<th>Industry</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceuticals</td>
<td>Pfizer Inc.</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Magna International</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>PepsiCo Inc.</td>
</tr>
<tr>
<td>Conglomerates</td>
<td>Honeywell International Inc.</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Royal Bank of Canada</td>
</tr>
<tr>
<td>Utilities</td>
<td>Avangrid Inc.</td>
</tr>
<tr>
<td>Insurance</td>
<td>Manulife Financial</td>
</tr>
<tr>
<td>Technology</td>
<td>Intel Corporation</td>
</tr>
<tr>
<td>Mining</td>
<td>Goldcorp Inc.</td>
</tr>
<tr>
<td>Telecoms</td>
<td>Telus</td>
</tr>
</tbody>
</table>

Are the most sustainable companies* the most profitable**?

<table>
<thead>
<tr>
<th>Top 10 Most Sustainable (informed by Corporate Knights)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Siemens</td>
</tr>
<tr>
<td>2. Storebrand</td>
</tr>
<tr>
<td>3. Cisco Systems Inc</td>
</tr>
<tr>
<td>4. Danske Bank</td>
</tr>
<tr>
<td>5. Ing Group</td>
</tr>
<tr>
<td>6. Commonwealth Bank of Australia</td>
</tr>
<tr>
<td>7. Koninklijke Philips</td>
</tr>
<tr>
<td>8. Johnson &amp; Johnson</td>
</tr>
<tr>
<td>9. Koninklijke DSM</td>
</tr>
<tr>
<td>10. Enagas</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top 10 Most Profitable**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Walmart</td>
</tr>
<tr>
<td>2. ExxonMobil</td>
</tr>
<tr>
<td>3. Berkshire Hathaway</td>
</tr>
<tr>
<td>4. Apple</td>
</tr>
<tr>
<td>5. United Health Group</td>
</tr>
<tr>
<td>6. McKesson</td>
</tr>
<tr>
<td>7. CVS</td>
</tr>
<tr>
<td>8. Amazon</td>
</tr>
<tr>
<td>9. AT&amp;T</td>
</tr>
<tr>
<td>10. General Motors</td>
</tr>
</tbody>
</table>

* https://www.forbes.com/sites/jeffkauflin/2017/01/17/the-worlds-most-sustainable-companies-2017/#2343bd924e9d
** http://fortune.com/2017/06/07/fortune-500-companies-profitable-berkshire-hathaway/
Walmart* as an example – Social and Governance

Opportunity
We will increase economic opportunity in retail and retail supply chains

Increased economic mobility and inclusion
Completed our $2.7 billion investment in the U.S. that includes increases in training, education and higher wages
Walmart enabled over a half million* people to grow and succeed

Supporting local, diverse and small businesses
Fulfilled commitment to source $20 billion from women-owned businesses over 5 years.
Investing in American jobs – Walmart is committed to purchasing an additional $250 billion in products that support American jobs between 2013 and 2023

Global Giving
$1.4 billion+ in total
$1.1 billion+ in-kind giving
$299.9 million+ in cash giving

* Based on number of Walmart associates who graduated from Pathways and Academies training programs. Walmart associates promoted and individuals receiving training through programs funded by Walmart or the Walmart Foundation.

Walmart - Environmental and Social

Sustainability
We will enhance the sustainability of operations and value chains

- Reducing energy intensity and emissions in our operations
  - Approximately 26% renewable energy globally
- Eliminating waste in our operations
  - 77% of global waste diverted from landfill*
- Reducing environmental impacts
  - A reported 76 million acres committed to fertilizer optimization programs

Providing affordable, safer and healthier food and products

- 96%** suppliers reduction of high priority chemicals by weight in Walmart U.S. stores since 2014

Supporting the dignity of workers everywhere

- Joined the Leadership Group for Responsible Recruitment

Supporting measurement and transparency in our supply chain

- $200 billion worth of goods sold evaluated for sustainability performance

* Based on review of material handling and waste diversion processes in Argentina, Brazil, Canada, Central America, Chile, Japan, Mexico, South Africa, U.K., and U.S., as reported by waste vendors, food banks and stores. In cases where real numbers were not available due to industry challenges they have been estimated based on industry acceptable standards.

** A weighted reported number
Walmart – Sustainable and Profitable

Community
We will help strengthen local communities

- Enhancing resilience in the face of disasters
  Supported communities after 30 disasters
  $6.8 million cash donations for disaster preparedness and relief

- Developing local communities
  1.2 million associate volunteer hours
  $100 million invested by Walmart and the Walmart Foundation in local communities

Relieving hunger
Provided support for 2.4 billion+ meals provided to people in need since 2014
The growing interest for sustainable or ESG investing has reached $7 trillion in these strategies in 2016, which is nearly double the 2012 figure of $3.7 trillion.\(^1\)

Assets under management using sustainable, responsible and impact strategies account for more than one out of every six dollars under professional management in the United States.\(^1\)

https://www.ussif.org/
A new Ceres analysis reveals gaps between what investors want and what companies disclose on sustainability – *not there yet!*

“At the end of the day, certain environmental and social issues pose risks to business performance,” said Veena Ramani, director of the Capital Market Systems program at Ceres.

“To make the right decisions on these risks, investors need the right information -- information that is comparable, relevant and reliable. Companies are making progress, but they can do more to connect the dots between disclosures and business decisions. Our analysis pushes companies to focus on not simply ‘disclosing more’ but ‘disclosing what matters’.”

Questions
Back Ups
What?
Defining ESG. Ratings seek to answer these questions:

Of the negative externalities that companies in an industry generate, which issues may turn into unanticipated costs for companies in the medium to long term? Conversely, which ESG issues affecting an industry may turn into opportunities for companies in the medium to long term?

Source: MSCI, April 2016
What is Climate Portfolio Risk?

<table>
<thead>
<tr>
<th>Physical</th>
<th>Technological</th>
<th>Regulatory</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing frequency of</td>
<td>Incumbent industries under threat from</td>
<td>Differences in local regulation impacting</td>
<td>Increasing awareness is changing consumer</td>
</tr>
<tr>
<td>extreme weather events</td>
<td>technological advances</td>
<td>competitiveness across markets</td>
<td>behaviours</td>
</tr>
<tr>
<td>Potential for greater economic</td>
<td>Disruptive technology shortening</td>
<td>Changing regulation impacting company cash</td>
<td>NGOs pressuring companies to rethink</td>
</tr>
<tr>
<td>losses</td>
<td>investment horizons</td>
<td>flows</td>
<td>supply chains</td>
</tr>
<tr>
<td>Rising temperatures linked to</td>
<td>Fierce competition driving margins</td>
<td>Heightened risk of compliance failures</td>
<td>Investors pledging to decarbonise portfolios</td>
</tr>
<tr>
<td>higher mortality and falling</td>
<td>lower</td>
<td></td>
<td></td>
</tr>
<tr>
<td>productivity</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**POTENTIAL PORTFOLIO IMPACTS**

- Corporate failures
- Unexpected and permanent loss of capital
- Stranded assets

Source: BlackRock Investment Institute, August 2016
Reputation Institute is the world’s leading reputation-based research advisory firm, founded by Dr. Charles Fombrun and Dr. Cees van Riel in 1997.

Reputation Institute has created the world’s largest normative reputation database.

- RepTrak® Pulse Score
- 7 Dimensions of Reputation
- 23 Reputation Attributes
- 10+ Years of Data Indexed
- 40 Countries Measured
- 15 Stakeholder Groups
- 7,000 Companies per Year
- 8M+ Responses per Year

Our most prominent asset is the RepTrak® model for analyzing the reputation of companies, industries, countries, cities, and even people.

We are best known for the Forbes-published Global RepTrak® 100 -- the world’s largest study of reputation.

“We enable corporate communication leaders to make smart strategic business decisions that build on and protect reputation capital to drive competitive advantage.”
Drivers of CSR are Defined by Ethics, Fairness, and Societal Impact

### GOVERNANCE

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weight</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behaves ethically</td>
<td>4.8%</td>
<td>68.0</td>
</tr>
<tr>
<td>Is fair in the way it does business</td>
<td>4.7%</td>
<td>69.4</td>
</tr>
<tr>
<td>Is open &amp; transparent about the way it operates</td>
<td>4.3%</td>
<td>66.8</td>
</tr>
</tbody>
</table>

### CITIZENSHIP

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weight</th>
<th>Global Average</th>
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</thead>
<tbody>
<tr>
<td>Has a positive influence on society</td>
<td>5.4%</td>
<td>69.5</td>
</tr>
<tr>
<td>Acts responsibly to protect the environment</td>
<td>3.9%</td>
<td>64.8</td>
</tr>
<tr>
<td>Supports good causes</td>
<td>3.8%</td>
<td>66.1</td>
</tr>
</tbody>
</table>

### WORKPLACE

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weight</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstrates concern for employees</td>
<td>3.6%</td>
<td>67.0</td>
</tr>
<tr>
<td>Rewards employees fairly</td>
<td>3.5%</td>
<td>67.5</td>
</tr>
<tr>
<td>Equal opportunities in the workplace</td>
<td>3.3%</td>
<td>68.6</td>
</tr>
</tbody>
</table>