

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

USF Patel College of Global Sustainability
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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.

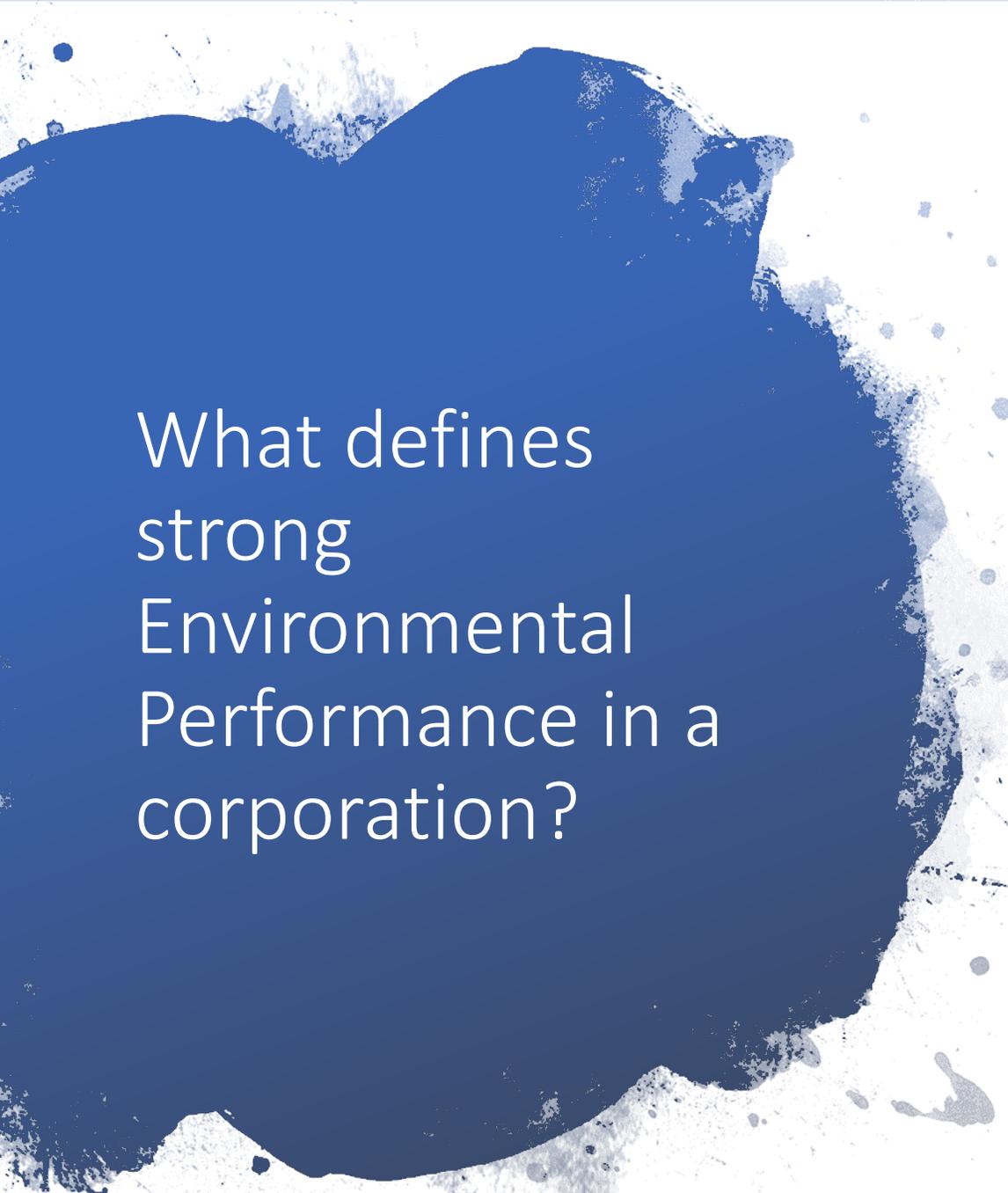
Some questions:

- 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?

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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

**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%**

*<https://www.newsweek.com/green-rankings-2017-18>

Other companies with Strong Environmental Performance*

GLOBAL TOP 10

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

*<https://www.newsweek.com/green-rankings-2017-18>

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

REPTRAK® DIMENSIONS Cognitive Considerations

- PRODUCTS & SERVICES
- INNOVATION
- WORKPLACE
- GOVERNANCE
- CITIZENSHIP
- LEADERSHIP
- PERFORMANCE

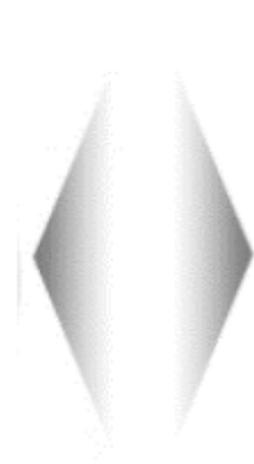
THINK



REPTRAK® PULSE Emotional Connection



FEEL



SUPPORTIVE BEHAVIORS Reputation Outcomes

- PURCHASE +8.0%
- RECOMMEND +8.2%
- CRISIS PROOF +7.3%
- VERBAL SUPPORT +8.0%
- WORK +8.1%
- INVEST +6.3%

ACT

Used with permission as a member

Example of a High Performing Social Corporation*



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

- #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

*<https://www.reputationinstitute.com/resources/registered/pdf-resources/2017-global-reprtrak-most-reputable-companies-in.aspx>

Other companies with Strong Social Performance

Rank	Company	2017 CSR RepTrak [®]
1	LEGO Group	74.4
2	Microsoft	74.1
3	Google	73.9
4	The Walt Disney Company	73.5
5	BMW Group	71.5
6	Intel	71.1
7	Robert Bosch	71.0
8	Cisco Systems	71.0
9	Rolls-Royce Aerospace	70.7
10	Colgate-Palmolive	70.4



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://ethicalboardroom.com/corporate-governance-winners-2017-the-Americas/>
- <https://isgframework.org/corporate-governance-principles/>

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.

North American corporations* by industry determined to have strong governance

Pharmaceuticals	Pfizer Inc.
Manufacturing	Magna International
Food & Beverage	PepsiCo Inc.
Conglomerates	Honeywell International Inc.
Financial Services	Royal Bank of Canada
Utilities	Avangrid Inc.
Insurance	Manulife Financial
Technology	Intel Corporation
Mining	Goldcorp Inc.
Telecoms	Telus

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

Top 10 Most Sustainable *(informed by Corporate Knights)*

1. Siemens
2. Storebrand
3. Cisco Systems Inc
4. Danske Bank
5. Ing Group
6. Commonwealth Bank of Australia
7. Koninklijke Philips
8. Johnson & Johnson
9. Koninklijke DSM
10. Enagas

Top 10 Most Profitable**

1. Walmart
2. ExxonMobil
3. Berkshire Hathaway
4. Apple
5. United Health Group
6. McKesson
7. CVS
8. Amazon
9. AT&T
10. General Motors

* <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-profi10le-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

* 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.



Global Giving

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

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.

** & excludes non-retail numbers

Walmart – Sustainable and Profitable

Community

We will help strengthen local communities



Relieving hunger

Provided support for **2.4 billion+** meals provided to people in need since 2014



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



What is the opportunity? – Raymond James

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

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’.”

<https://www.ceres.org/news-center/press-releases/new-ceres-analysis-reveals-disclosure-gap>



Questions

Back Ups

What?

Defining ESG. Ratings seek to answer these questions:

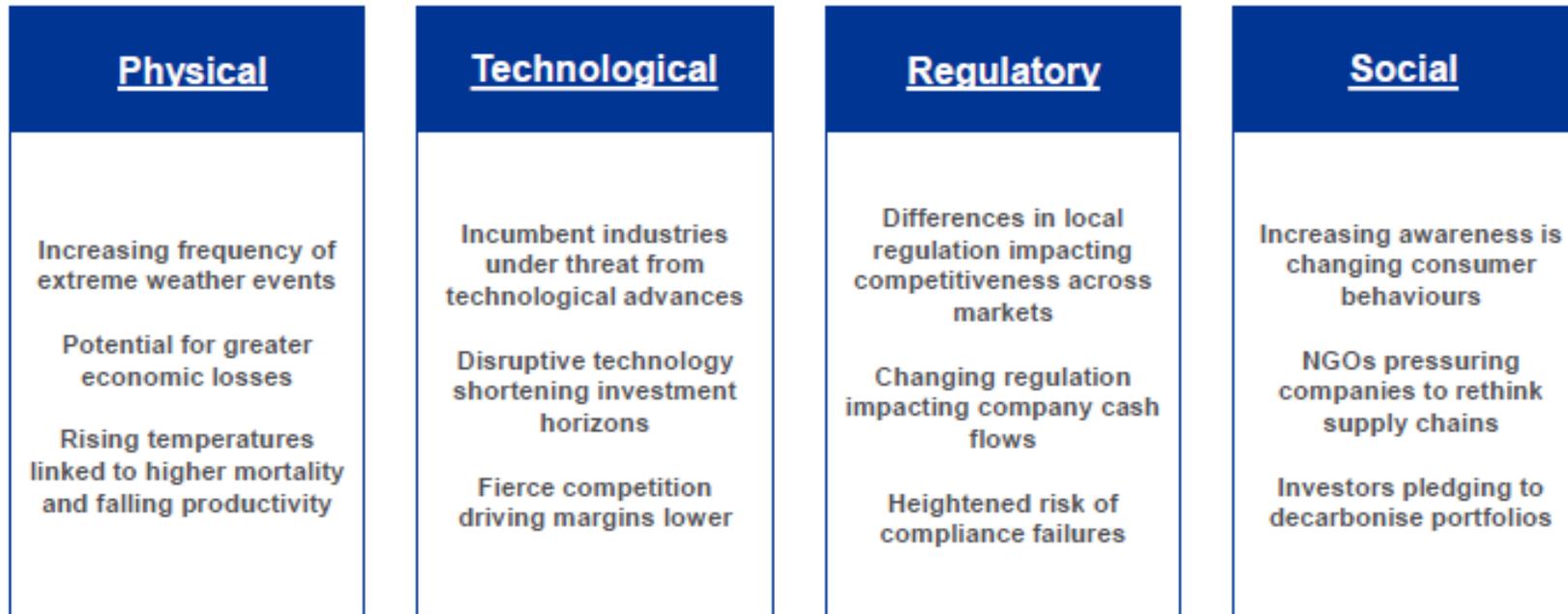


Of the negative externalities that companies in an industry generate, which issues may turn into unanticipated costs for companies in the medium to long term?

Conversely, which ESG issues affecting an industry may turn into opportunities for companies in the medium to long term?

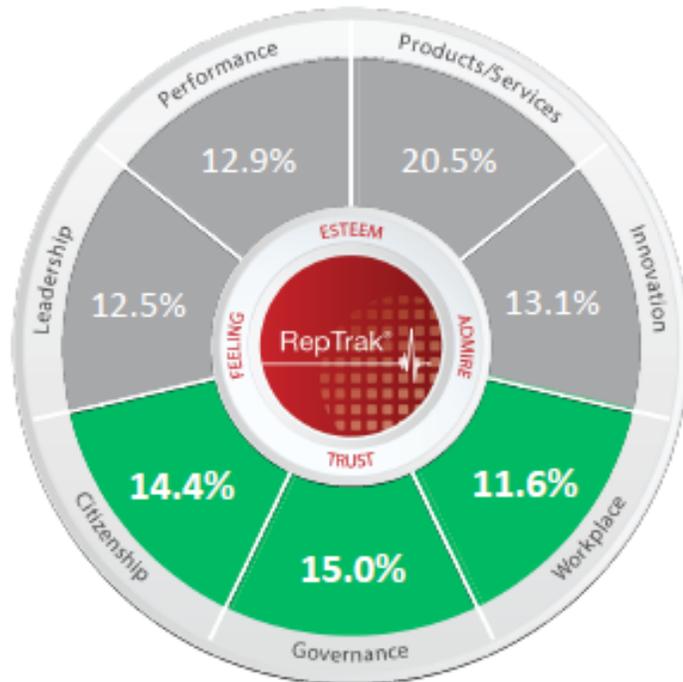
Environment Pillar				Social Pillar				Governance Pillar	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Opportunities in Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Opportunities in Green Building	Health & Safety	Chemical Safety		Access to Finance	Pay	Anti-Competitive Practices
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Opportunities in Renewable Energy	Human Capital Development	Financial Product Safety		Access to Health Care	Ownership	Corruption & Instability
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	Financial System Instability
					Responsible Investment				
					Insuring Health & Demographic Risk				

What is Climate Portfolio Risk?



Drivers of CSR are Defined by Ethics, Fairness, and Societal Impact

Global RepTrak® 2017



CSR Weight = 41%

GOVERNANCE

	Weight	Global Average
Behaves ethically	4.8%	68.0
Is fair in the way it does business	4.7%	69.4
Is open & transparent about the way it operates	4.3%	66.8

CITIZENSHIP

	Weight	Global Average
Has a positive influence on society	5.4%	69.5
Acts responsibly to protect the environment	3.9%	64.8
Supports good causes	3.8%	66.1

WORKPLACE

	Weight	Global Average
Demonstrates concern for employees	3.6%	67.0
Rewards employees fairly	3.5%	67.5
Equal opportunities in the workplace	3.3%	68.6