



Rising Importance of CG Indices Worldwide

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CGC  مركز حوكمة الشركات
Corporate Governance Center
Alfaisal University - College of Business



Why do governance indices exist?

- Investor eyes on risk, opportunity (early warning system) for portfolio construction, stewardship
- Testing compliance with rules, codes, or expectations
- Attracting capital to a market
- Lowering cost of capital for companies
- Raising trust among stakeholders

What's in it for companies?

- **Pfizer:** First US corporate to embrace governance—and found in 2000 it helped banked investor goodwill in a key USD 90 billion takeover of Warner-Lambert
 - Saved money and months of litigation
- **Marks & Spencer:** Board installed risk functions that helped it dodge 2013 reputation damage in Rana Plaza
 - Supply chain rules against multi-story buildings in Bangladesh
- **Unilever:** Goodwill banked through board and CEO commitment to excellence in environmental, social, and governance (ESG) indices helped fend off a 2017 Kraft USD 143 billion takeover effort

In short: governance is not all about compliance—there are concrete business advantages to be won

Who uses indices?

- Regulators (let market police itself against fraud, systemic risk)
- Stock exchanges (more capital, IPOs, better companies- note Sustainable Stock Exchanges initiative-EGX is member)
- Asset managers and asset owners (for ETFs, voting/stewardship, active portfolio management, activism)
- Companies (draw longer term investors, better performance)
- Market promotion agencies (attract investment, jobs)

- Credit rating agencies (better fix on comparative long term risks)
- Insurance companies (D&O insurance, manage ESG risk)
- Index providers (constructing indices for ESG demand)
- NGO watchdogs (SASB, GRI, Ceres, AFL-CIO, often with specific goals such as climate, executive pay)
- Service providers/consultants (helps drive business)
- Search firms (vetting board candidates)
- Academics (research, collaboration with other parties)

Who provides indices?

- Number of providers is growing
- Universities—AlFaisal; Stellenbosch; Anahuac
- *Sustainalytics* uses 70 indicators in each industry
- *MSCI* examines 1,000 data points, with 156 variables and 37 weighted key indicators, using company, government, and media sources; team verifies data with companies; daily monitoring, weekly updates
- *ISS* uses 200 factors including: board structure (board and board committee composition, board practices, board policies, related party transactions and board controversies); compensation/remuneration (pay for performance, non-performance based pay, use of equity, equity risk mitigation, non-executive pay, communications and disclosure, termination and controversies); shareholder rights (one-share one- vote, takeover defenses and meeting and voting related issues); audit and risk oversight (external auditor and audit and accounting controversies)

- *Bloomberg ESG Data Service* (Bloomberg ESG data covers 120 indicators including carbon emissions, climate change effect, pollution, waste disposal, renewable energy, resource depletion, supply chain, political contributions, discrimination, diversity, community relations, human rights, cumulative voting, executive compensation, shareholders' rights, takeover defense, staggered boards, and independent directors)
- *Thomson Reuters ESG Research Data* has more than 400 different ESG metrics. Of these, 178 are key data points in 10 categories: Resource use, emissions, innovation, management, shareholders, CSR strategy, workforce, human rights, community, and product responsibility. Each category is weighted. For instance, "Management", with multiple indicators (composition, diversity, independence, committees, compensation, etc.) is weighted 19%, whereas "Human Rights" is weighted 4.5%

- *DowJones Sustainability Index* covers 100 ESG issues on governance, risk and crisis management, codes of business conduct, customer relationship management, policy influence, brand management, tax strategy, cybersecurity, privacy protection, environmental reporting, environmental policy and management systems, and operational eco-efficiency
- *Morningstar* (rates investing institutions)
- *Vigeo/EIRIS*
- *RobecoSAM*

- Stock exchanges such as Novo Mercado in Brazil
- *FTSE4Good*
- Corporate Knights Global 100
- Yahoo Finance
- Media (newspapers, magazine, social media)

What do indices assess?

- No universal consensus on metrics
- Some just do Governance, some Environment, some Social—some none of the above (McKinsey metrics for FCLT are purely financial)
- Decide what to measure (ie align with a local code? Or OECD? Or use proprietary standards?)
- Subjective judgements: geography, timeline, weighting, criteria, universe parameters, level of detail, impact/relevance analysis, qualitative v. quantitative
- How deep do you go? Subsidiaries? If so, wholly or partially owned? Supply chain?
- Factors critical but tough to measure, such as culture

Governance index components example



Country Inc: [United States](#)
 Home Market: [United States](#)
 ESG Region: [United States](#)
 ESG Sector: [Energy](#)
 ESG Industry: [Oil / Gas Refining / Marketing](#)



Last ESG Rating Change: [Apr 6, 2016](#)
 Last Data Update: [Mar 22, 2018](#)
 Last Proxy Filing: [Apr 13, 2017](#)
 Market Cap: \$ 309,177.5 mm (Large Cap)

ESG Rating	Governance	Environmental	Social	AGR® Rating
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[ESG Analysis](#) | [ESG Events](#)

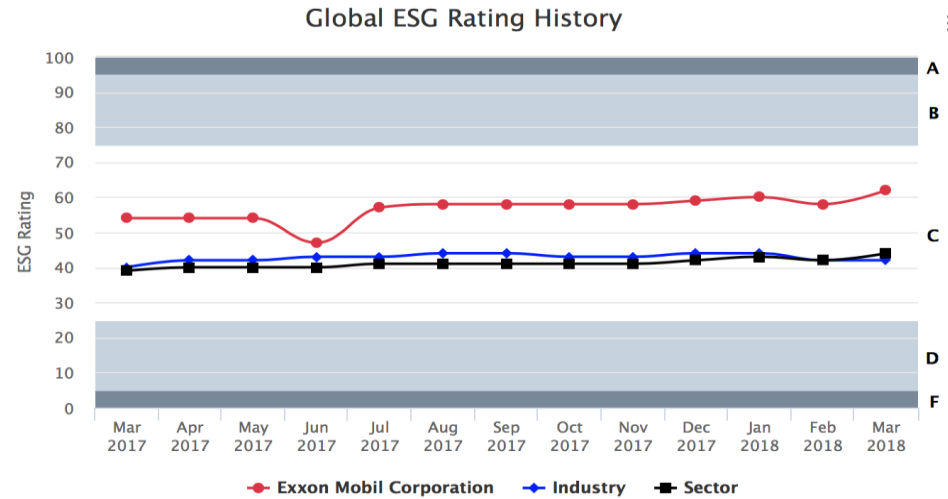
[Download as PDF](#) | [Business Overview](#) | [Stock Price Chart](#) | [Insider Trades](#) | [Fundamental Ratios](#) | [Financial Statements](#) | [Exxon Mobil Corporation's Network](#)

Component Ratings	Global	Home Market	Sector	Impact
ESG OVERALL	C	C	B	
GOVERNANCE	C	C	C	87.0 %
Board	C	C	C	43.5 %
Pay	C	C	C	19.6 %
Ownership & Control	C	C	C	23.9 %
Accounting	A	A	A	0.0 %
ENVIRONMENTAL	C	B	B	4.3 %
SOCIAL	B	B	B	8.7 %
Country: United States				
Home Market: United States				
Sector: Energy				
About Our Ratings Last Data Update: Mar 22, 2018				

[Show all KeyMetrics](#)

ESG KeyMetrics®	Flag	Impact
GOVERNANCE - BOARD		
Combined CEO/Chair		4.3 %
Executive Chair		6.5 %
Independent Chair		2.2 %
Independent Lead Director		2.2 %
Audit Committee Industry Expert		2.2 %
Overboarded Non-Exec Directors		10.9 %
Overboarded Audit Committee Members		2.2 %
Negative Director Votes		10.9 %
GOVERNANCE - PAY		
Advance Disclosure of Performance Targets		4.3 %
Annual Incentive Measures		4.3 %
CEO Equity Policy		4.3 %
Director Equity Policy		2.2 %
Significant Vote Against Pay Practices		4.3 %
CEO Pay Total Summary		4.3 %
GOVERNANCE - OWNERSHIP & CONTROL		
Controlling Shareholder	NO	
Indexed Company		4.3 %
Majority Voting		4.3 %
Bylaws Amendments		2.2 %
Constituency Provision		2.2 %

[Show Governance History](#)



ESG RATING ANALYSIS

Our global ESG rating for EXXON MOBIL is an overall 'C'. A complete history of its rating as of the first week of each month since its initial rating is shown in the chart above, and also compared against the average rating for its sector and industry. You can hover over the indicators on each charted line to show the letter grade rating and percentile rank as of that date.

This rating falls into the average range for all the companies we rate, and generally reflects a low level of concern in most areas.

Please note that ratings changes in the first part of the year reflect, in part, changes due to MSCI's annual ratings methodology updates and universe expansion.

CORPORATE GOVERNANCE

THE BOARD

The policies and practices of the EXXON MOBIL board fall within the average scoring range relative to global peers. We have flagged this board for potential concerns regarding the Chairman is an executive, some non-executives may have too many other public board commitments and notable dissent on director election votes.

The EXXON MOBIL board's policies and practices do not raise significant concerns at this time regarding its ability to properly oversee management and represent shareholder interests, but shareholders should note the issues discussed below.

But indices differ: Arcelor Mittal

ArcelorMittal S.A. (MT)

STEEL | LU

ESG RATING **B**

LAST UPDATE: September 29, 2017

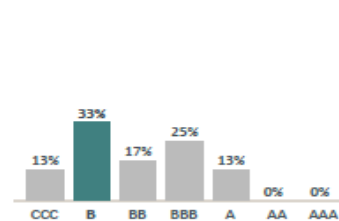
Labor unrest risks remains high, while emission intensity continues to rise



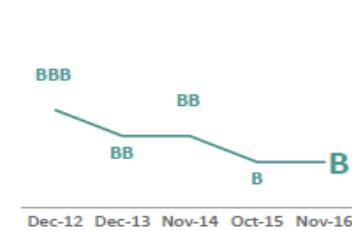
GOVERNANCE SNAPSHOT

Board Independence %	66.7%
Significant Votes Against Management	YES
Entrenched Board	NO
Pay Performance Gap	NO
Executive Pay Non-Disclosure	NO
Multiple Share Classes with Different Voting Rights	NO

INDUSTRY RATING DISTRIBUTION



ESG RATING HISTORY



ESG SCORE CARD*

	WEIGHT	SCORE	QUANTILE
Environment	59.0%	2.3	
Carbon Emissions	17.0%	1.6	**
Toxic Emissions & Waste	17.0%	0.9	*
Biodiversity & Land Use	14.0%	3.4	***
Water Stress	11.0%	4.0	*
Social	31.0%	4.2	
Health & Safety	17.0%	6.6	****
Labor Management	14.0%	1.2	*
Governance	10.0%	6.9	
Corporate Governance	10.0%	6.9	****
Anticompetitive Practices	0.0%	3.7	N/A
Business Ethics & Fraud	0.0%	3.7	N/A
Tax Transparency	0.0%	3.0	*
View Corporate Governance Details Section →			
Overall Score			
Weighted-Average Key Issue Score		3.3	
Industry Relative Score		1.6	

RATING COMMENT

RATING DATE: November 23, 2016

ArcelorMittal's rating is unchanged at 'B'.

ArcelorMittal faces labor unrest risks as a result of its continued restructuring. The company witnessed several incidents of labor disputes and strikes in 2016. Additionally, its environmental performance is also weak, with most improvement programs being ad-hoc and compliance driven, thus raising suspicions of variations in both performance and standards across its global industrial footprint. Moreover, apart from 47% of its steel capacity located in Europe, a significant portion of its production is also carried out in areas with weaker environmental laws, such as Ukraine, Kazakhstan, South Africa, and parts of Latin America.

Analyst: Samuel Block

KEY RISKS



Toxic Emissions & Waste - Score 0.9

November 23, 2016

While the company has some ad-hoc often compliance-driven improvement plans, it has failed to show significant improvement in its emission performance, with declining sales volume ArcelorMittal is increasing its emission intensity, which is already higher than most industry peers. Several environmental controversies over the past few years underscore its problematic emission intensity.



Labor Management - Score 1.2

November 23, 2016

While ArcelorMittal has stronger labor management programs than most peers, which includes both training/development and regular employee surveys, it has been faced with a series of strikes in 2016 coming off job cuts. As the company generates less revenue per employee than the average of steel peers and continues to face a tough market, further layoffs and strains on labor relations are a high risk.

ISSUER COMMUNICATION

Company response last 12 months? YES
Last Communication Date Oct 06, 2017

[View Issuer Communication Summary Details →](#)

STRENGTHS



Health & Safety - Score 6.6

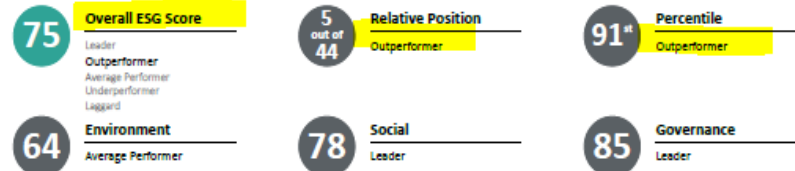
November 23, 2016

ArcelorMittal continues to achieve a reduction in lost time injuries and is advantaged to have a large proportion of its workforce operating in areas of strong health and safety standards. However, fatal incidents remains high at the company, which has a higher fatality intensity than most industry peers.

Industry: **Steel** Marketcap.: **26,311 mm. USD** Employees:
 Domicile: **Luxembourg** Ticker: **ENXTAM:MT**

ESG Summary

Overall Performance

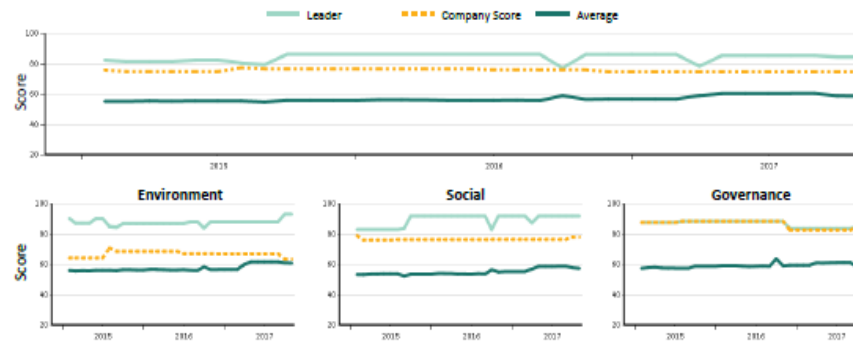


Relative Performance

5 out of **44** Relative Position
 Outperformer

Rank	Company	Score	Peers (Market cap \$20-\$52bn)	Score
1.	Kumba Iron Ore Limited	84	ArcelorMittal	75
2.	China Steel Corporation	78	POSCO	65
3.	Aperam	76	Vale S.A.	61
4.	SSAB AB	76	Baoshan Iron & Steel Co., Ltd.	58
5.	ArcelorMittal	75	Nippon Steel & Sumitomo Metal	55

Historical Performance



Qualitative Performance - Controversies



General information

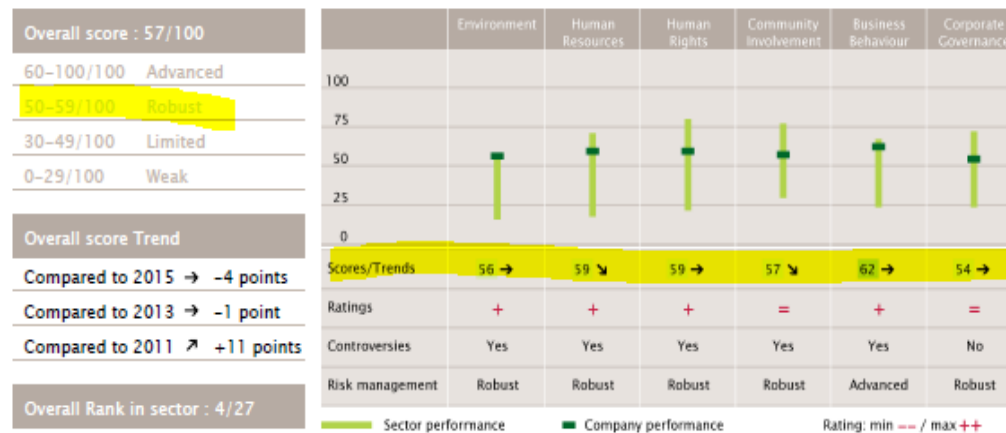
ArcelorMittal is very diverse producer of steel, making 'flat' products such as components for heavy machinery, cars, packaging and appliances, and 'long' products like train rails, beams and columns for the construction industry, and 'tubular' products for the oil and gas sector and infrastructure development. The company is present in 60 countries with steelmaking operations in 19 countries.

ArcelorMittal is also a mining company, with a production of 73.7 million tonnes of iron ore and 6.29 million tonnes of coal produced in 2015. The main iron ore mining operations are in the United States, Canada, Mexico, Brazil, Algeria, Bosnia and Herzegovina, Liberia, Ukraine and Kazakhstan. The company also operates coal mines in the United States and Kazakhstan.

Main Economic Segment**	Turnover 2016
Europe	51.1 %
NAFTA	27.8 %
Brazil	9.7 %



Overall CSR performance & trends



- With a robust global score (57/100, which represents a slight decrease of four points compared to the previous survey in June 2015), ArcelorMittal is among the best CSR performers of its sector. Moreover, the company shows a very homogeneous approach in addressing its ESG impacts.
- ArcelorMittal remains plagued by a lot of controversies and allegations related to anti-competitive practices, lobbying, labour rights, reorganisations, social dialogue, health and safety, discrimination, accidental pollution, local pollution, and the company's impact on local communities. This remains a main challenge for its reputation and its 'license to operate'. The company's overall approach to these allegations varies between non-communicative to remediative, which means that it is at least transparent and often cooperates with involved stakeholders to try to find satisfactory solutions to those problems.

How do providers compose indices?

- Public information v. proprietary questionnaires (eg RobecoSAM's questionnaire to companies has 80-120 questions)
- Complexity of cross-market assessment
- Staff training
- Trying for binary
- Accuracy—do you check data with companies?

- What level of granularity?
- Scoring: across national market or sector, or size, or by ownership characteristics? Score across borders? Relative and absolute ratings? Each can send very different signals
- Frequency of company reviews (annual, whenever material change?)
- Frequency of criteria assessment
- What language(s) should it be in?

Public data: Available? Reliable? Accurate? Broad in scope?

Screenshot 2018-02-01 18.15.13

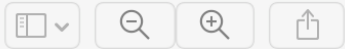
Rank	Country	Average ESG Disclosure	Average Environmental Disclosure	Average Social Disclosure	Average Governance Disclosure	Companies Researched
37	United States	23%	33%	16%	11%	606
38	Singapore	22%	21%	31%	4%	39
39	Hong Kong	19%	20%	24%	6%	89
40	New Zealand	19%	16%	23%	17%	14
41	Malaysia	16%	14%	24%	2%	45
42	Philippines	15%	14%	21%	3%	26
43	Ireland	10%	6%	13%	22%	4
44	China	7%	6%	12%	1%	226
45	UAE	6%	3%	11%	2%	20
46	Egypt	5%	4%	6%	4%	8
	Country Average	30%	37%	31%	11%	2923

Do indices achieve aims?

- Depends what the objectives are
- On relationship of governance to performance, mixed academic views on what drivers are most important, but weight is toward a correlation
- Less consensus on E&S drivers
- But index initiatives do seem to push companies to higher standards, lowering cost of capital, attracting investment, and raising performance [Example of Novo Mercado: CFA found firms that moved to the segment experienced higher performance]

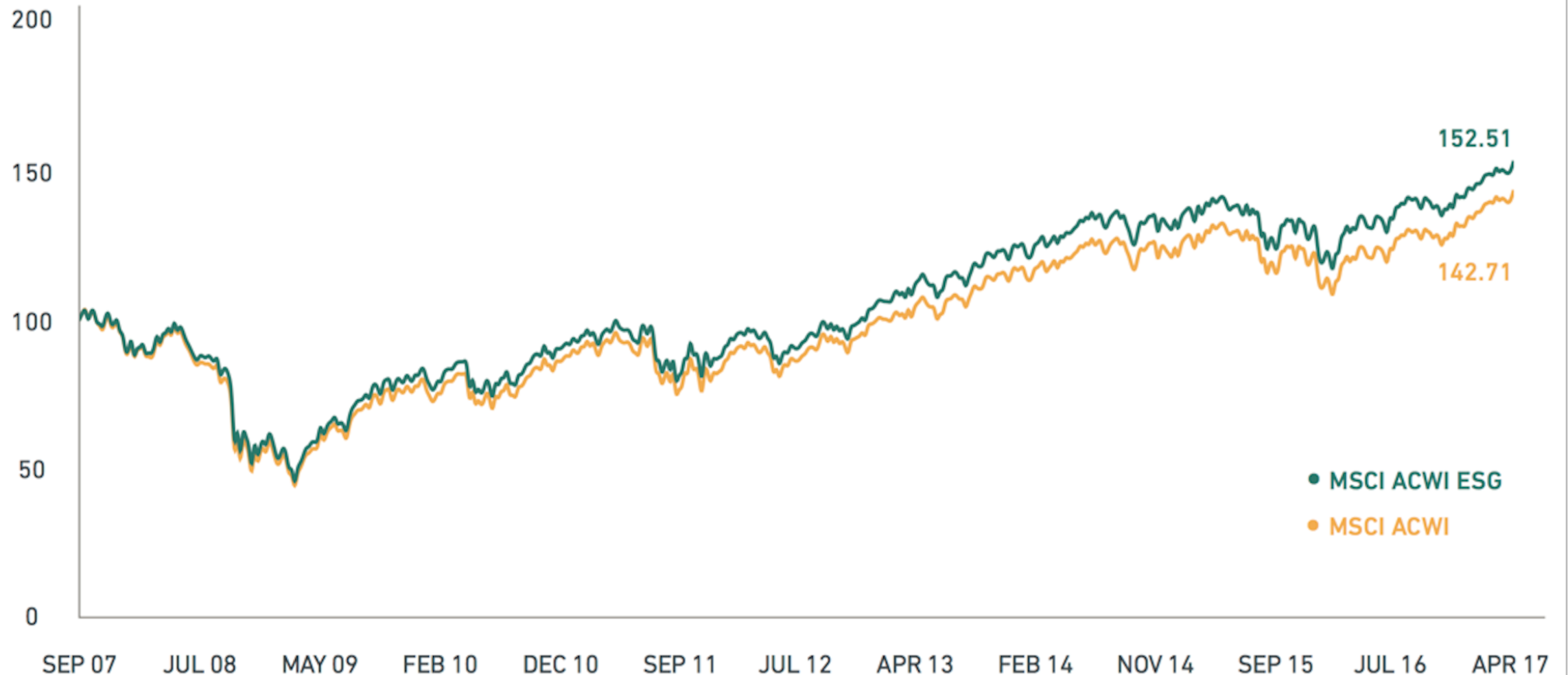
MSCI All Country World Index ESG

Screenshot 2018-02-01 18.00.58



Search

CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD) SEP 2007 – APR 2017



Thank you Alfaisal University College of Business



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