

Governance and Sustainability:

Winning The World Cup



Global
Corporate
Governance
Forum



IFC
International
Finance
Corporation
World Bank Group

Overview

- Corporate governance and sustainability – the evolution
- Drivers for reforms
- Taken seriously or another burden?
- Case studies
- 2014 - Winning the World Cup!

Evolution of Corporate Governance...

“Corporate governance is the system by which companies are directed and controlled.....”

- Board of Directors
- Transparency and Disclosure
- Shareholder Rights

*Sir Adrian Cadbury
UK, 1992*

...to Embrace Sustainability

“In its broadest sense, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, of corporations, and of society.”

Sir Adrian Cadbury

Corporate Governance Characteristics

Companies with good governance:

- Have better access to capital
- Command a premium from investors
- Improves oversight and monitoring
- Perform better operationally and financially
- Ensure effective decision making
- Pursue sustainable economic purpose

License to operate

Sustainability: Meaning for Business

"Corporate social responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large"

*World Business Council for
Sustainable Development*

"No company can be really successful unless it is sustainable...But sustainability is about more than profits. **Real sustainability is about simultaneously being profitable and responding to the reality and the concerns of the world in which you operate.** We're not separate from the world. It's our world as well. To be sustainable, companies need a sustainable world."

*John Brown
Former CEO, BP*

Sustainability Encompasses

- Concern for the **well-being of future generations**
- Awareness of the **multi-dimensional impacts** of any decision
 - ↳ economic, environmental, social
- Balance across **different dimensions**
 - ↳ **Sectors**: e.g. mining, manufacturing, transportation
 - ↳ **Themes**: e.g. climate change, community cohesion, natural resource management
 - ↳ **Scale**: e.g. local, regional, national, international

The Sustainability Report

Practical Investment-Driven Definition

Framework provided
by the *OECD Principles*:

- Shareholder Rights
- Boards of Directors
- Transparency and Disclosure

Practical Investment-Driven Definition

**Framework provided
by the *OECD Principles*:**

- **Shareholder Rights**
- **Boards of Directors**
- **Transparency and Disclosure**

Reinforcing all of these:

- **Corporate Citizenship**
- **Corporate Social Responsibility**
- **Socially Responsible Investing**
- **Other Elements of Sustainability**
- **Business Ethics**

Drivers For Sustainability

- Imperatives of climate change
 - ↳ Catalyst of political activism
 - ↳ Global accords on CO2 emissions reductions
 - ↳ National policies
 - ↳ Investors demand risk/opportunity analysis
- Energy economics – impact on bottom line
- Oversight bodies – inclusion of ESG in reporting
- Activists – external/internal stakeholders
 - ↳ Shareholders – long-term financial goals
 - ↳ NGOs – proliferation
 - ↳ E-activists – harnessing power of Internet
 - ↳ Perception that government, business failing to address vast, complex problems, interest groups – freeing of identity from the conforming dictates of modern organizations

Drivers for Sustainability

- Opportunities
 - ↳ the promise of renewable energy investments
- Branding
 - ↳ good corporate citizenship enhances reputation, awareness; strengthens customer/employee loyalty; “casts a green halo”
- Institutional investor mandates
 - ↳ largest public pension funds screen for ESG
- Financial analysts’ metrics improve
 - ↳ environment, social, governance measurements
- Proliferation of investment products
 - ↳ Dow Jones Sustainability Index, FTSE4Good Index
- Imperatives of good corporate governance practices

Foreign Investors Quadruple Stakes

- A recent Citigroup study shows that investors from the US and Europe have quadrupled their stakes in a wide array of **emerging market** public companies since 2001, e.g. in 2006 foreign investors owned a median of 20% of publicly available shares in these firms, relative to the 5% they held in 2001
- US and European mutual, pension and hedge funds are agitating for better corporate governance and adherence to sustainability principles

“With typical price-to-book ratios running between four and five, the intangible value of most companies is between 70 and 80 percent of total market value. Given this magnitude, it’s not surprising that investors are increasingly interested in intangibles.”

Who Cares About Environmental, Social, and Governance Issues?

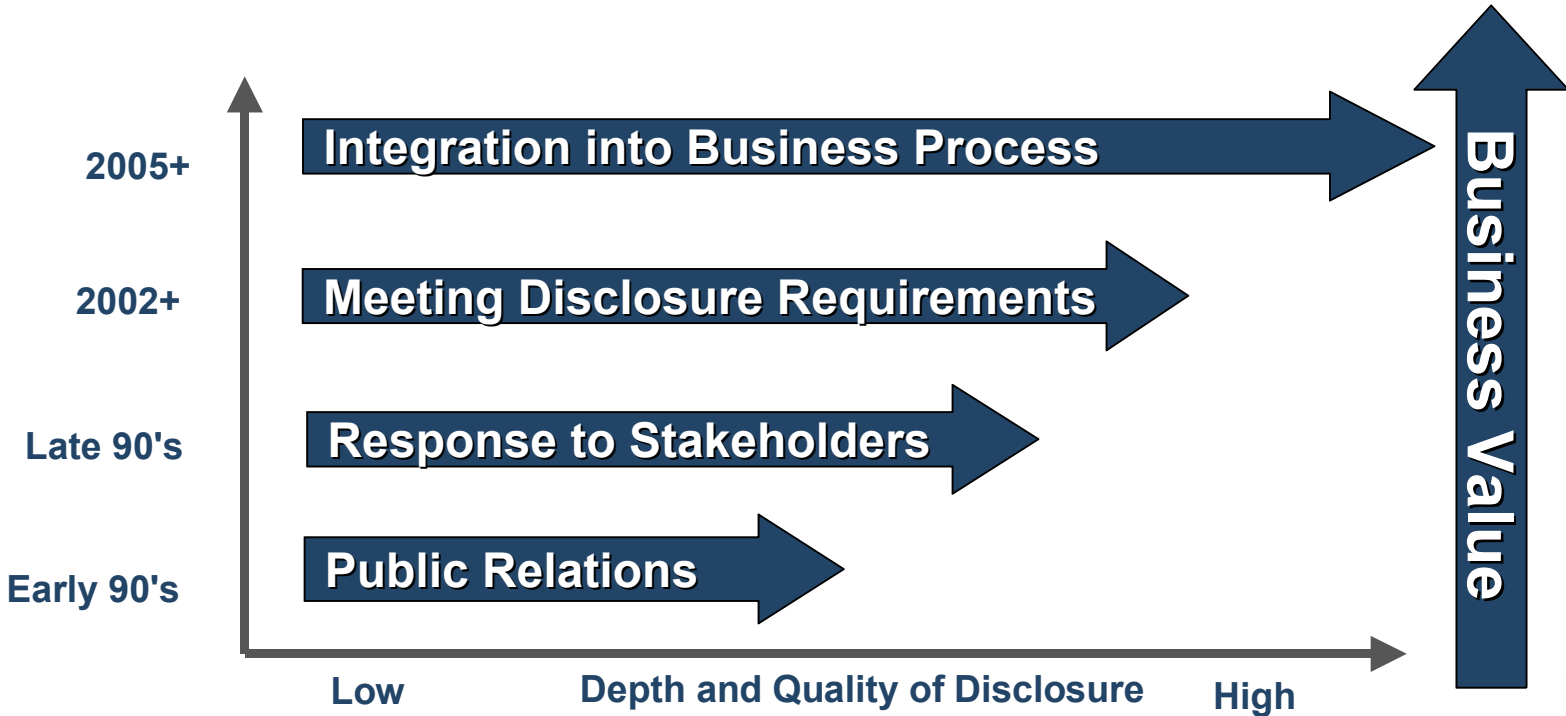
The Mainstream Financial Community.

Jay Falk

Global Trend on Reporting

- A growing number of the largest publicly traded companies are reporting annually on their environmental and social performance just as they do on their financial performance
 - ↳ Special Web sites using multimedia presentations
 - ↳ Issue annual corporate social responsibility (CSR) reports
 - ↳ Part of brand – advertising that they’re “green;” GE: “Eco-magination”
- 80% of the top 15 global brands ranked by Interbrand and Business Week produce reports on their economic, environment, and social performance based on metrics from the Global Reporting Initiative (GRI)
- 64% of the top 100 global companies as ranked by FT, Forbes, and Fortune use the GRI Reporting Guidelines to make their sustainability reports

Evolution Of Sustainability Reporting



Reporting Trends

Learning Curve

Many reports stress that they are taking first steps – “me too” -
- in integrating environmental, social and economic factors into company policies and operations

Anecdotal

Reports tend to be full of short stories on different company projects or programs, but include few numbers and validation

Lacking Integration

These reports separate ESG analysis, rather than integrating it into a company’s core strategy to provide the “whole” picture and independently certified

Providing Comprehensive, Integrated Sustainability Reporting

Some Examples



Hanover Re

Multiplicity Of Reporting Standards

UN Global Compact

UN Finance Initiative

IFC Equator Principles

ISO 14001

Global Reporting Initiative

Extractive Industries Transparency Index

Institutional investors' proxy voting guidelines

Sustainability indices

Ethical Activists

Media

Coca Cola® Kerala Incident

- Coke accused of substandard water treatment
- Water cited as containing DDT, other pesticides
- Sludge from plants given to farmers for fertilizer use
- Coke also accused of excessive groundwater depletion
- Kerala State Government shuts down bottling plant in 2004, bans sale of Coke products in 2006
- Attacked by NGO's, anti-Coca Cola websites
- <http://www.indiaresource.org/news/2005/1062.html>

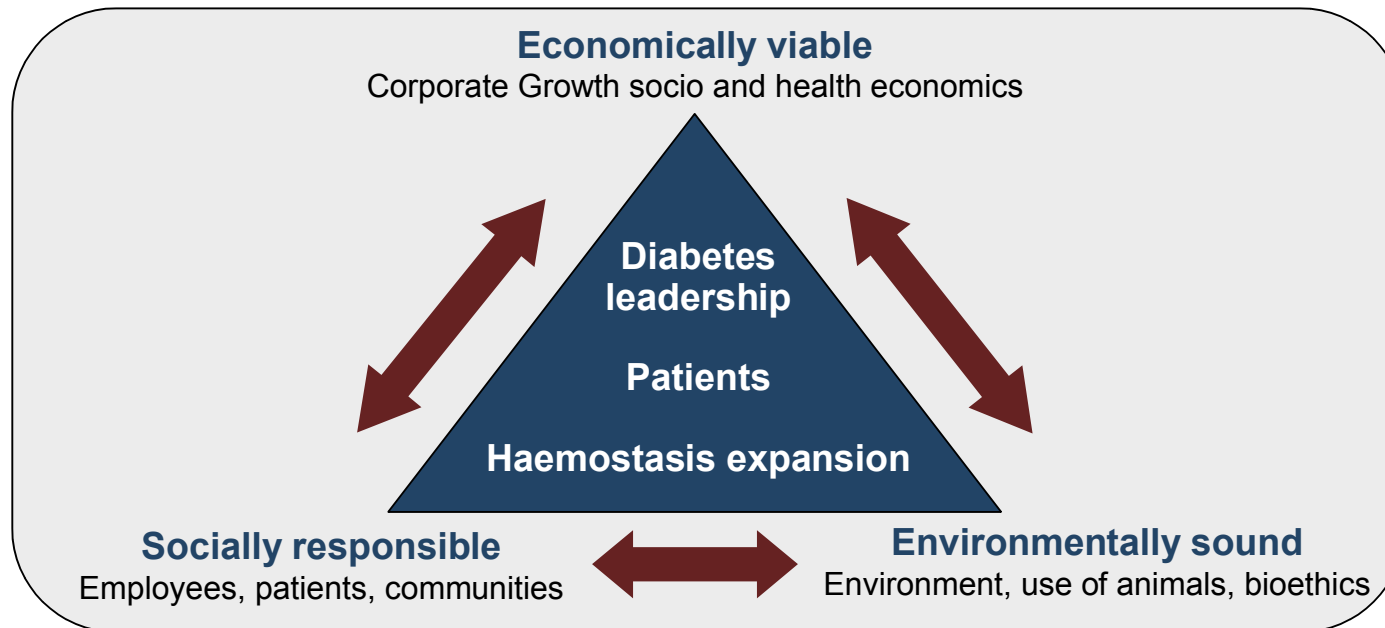


Coke Strikes Back

- Challenged sales ban to Indian Supreme Court
- Launched special *Myths and Facts* section on Coca Cola India Website
 - ↳ <http://www.coca-colaindia.com/faqs/myths-facts.asp>
- Launched *Coke Facts* to highlight the benefits of Coca Cola in India while challenging facts and credibility of critics
 - ↳ http://www.cokefacts.org/India/facts_in_qa.shtml
- **Brand prominence = Reputational vulnerability!**

Novo Nordisk®: Triple Bottom Line

"We recognize that our activities impact people, communities and the environment and that they may have consequences for future generations. Through our commitment to the **Triple Bottom Line** (financial social and environmental responsibility) we strive to maximize positive impacts and minimize the negative ones."



Google[®]: Censorship in China

“We recognize that access to information is a powerful tool to help identify and solve problems. We are committed to harnessing our resources to help address pressing global needs.”

Founders' Letter 2006

- **China:** Attempting to search for censored keywords in these Chinese search engines will yield few or no results. Google.cn will display the following at the bottom of the page: "According to the local laws, regulations and policies, part of the searching result is not shown."
- **Google's Response:** “While removing search results is inconsistent with Google's mission, providing no information (or a heavily degraded user experience that amounts to no information) is more inconsistent with our mission.”
- **Consistency:** **Any deviation from publicly stated principles and standards will generate questions about genuine, substantive commitment to good corporate governance and sustainability!**

GE[®] Eco-magination...is it Real?

“GE's Environment Push Hits Business Realities”

Wall Street Journal, September 14, 2007

- GE's commitment to imagine and build innovative solutions that solve today's environmental challenges and benefit society and the company's bottom line
- But, continues to sell coal-fired steam turbines
- And, finance unit seeks out coal-related investments including power plants, which are a leading cause of carbon-dioxide emissions in the U.S.
- Also, investing in carbon capture technologies
- **Innovation in marketing and branding = Close supervision of areas of potential risk or exposure to contradictions and inconsistencies!**

What We Should Ask Ourselves

Leadership

- Is sustainability recognized at the highest levels of management?

Recognition and reaction

- Aware of impact?
- Thought through how to respond?

Disclosure

- How does a company communicate its policy to the public and investment community?

Looking into the future

- What business actions are needed to address issues that threaten sustainability?

Concluding Observations

- Companies committed to sustainability are confronted with challenges
 - ↳ corporate governance provides framework for decision making.
- Businesses need processes that bring emerging social forces to the attention at the highest level of the organization
 - ↳ need to manage social contracts, and the inevitable trade-offs
- Adherence to sustainability standards and practices is very contextual
 - ↳ often more compelling to size of company, industry sector, branding, consumer sensitivity, global footprint, etc.

Increasing issue of political concern and active intervention ⇒ Director's fiduciary duties to preserve company's best interests

THANK YOU



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The image shows the front cover of a book titled "Better Companies, Better Societies". The cover is divided into two main color sections: a light blue top half and a green bottom half. The top half features a background of classical architectural columns and steps. The text on the cover includes the title "GLOBAL CORPORATE GOVERNANCE FORUM" and the subtitle "Better Companies Better Societies". A quote from Philip Armstrong is featured in the green section: "Corporate Governance is as much about the quality and integrity of decisions in business, as it is about merely complying with laws and regulations." Below the quote is the name "Philip Armstrong, Head, Global Corporate Governance Forum". At the bottom of the cover, it says "Private Sector Advisory Group" and "Peter Day, Chairman, Private Sector Advisory Group". Logos for the Global Corporate Governance Forum and IFC (International Finance Corporation) are visible at the bottom of the cover.