

Creating Metrics for Corporate Governance and Sustainable Development

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Creating Metrics for Corporate Governance and Sustainable Development

- Overview of corporate governance debate and role of corporate governance scoring
- Defining governance: financial stakeholders versus broader stakeholder based
- Assessing comparative corporate governance structures in an international context: is there a global standard?
- Moving beyond the financial approach to governance to sustainability metrics

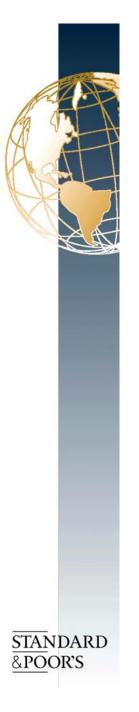




Corporate Governance: Recent Research

- Investors cite governance practices as important as financial performance in evaluating investment opportunities
- Investors are willing to pay a premium for shares of a well-governed company
- There is mounting evidence linking corporate governance and financial performance

<u>No internationally recognized standards or</u> <u>benchmarks</u>



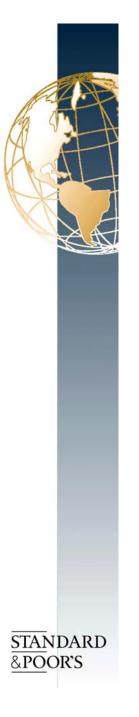
What Standard & Poor's is doing

Standard & Poor's has established a capability to objectively benchmark and compare a company's corporate governance practices including:

- Corporate Governance Scores
 - Interactive analytical process
 - Done with consent of company: self selecting
 - Coverage will take time to build

<u>Process of measuring corporate governance provides greater</u> <u>transparency for investors and a positive incentive for companies to</u> <u>improve their governance standards:</u>

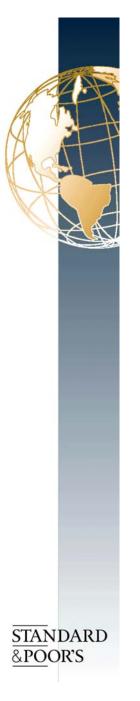
- Market based solution
- Complements top down efforts by regulators and exchanges
- > Tool for investors, companies and regulators



Standard & Poor's Corporate Governance Services

Basic Principles: What is corporate governance and how to measure it?

- At its most basic level the interaction of a company's management, board directors and shareholders to ensure that all financial stakeholders (shareholders and creditors) receive their fair share of the company's earnings and assets
- A corporate governance score (CGS) is Standard & Poor's opinion on the extent to which a company adopts codes and guidelines of generally accepted corporate governance practices that clearly serve the interests of its <u>financial stakeholders</u>
- <u>Non-financial stakeholders</u> (eg employees, community, environment, etc) not explicitly covered with current methodology. <u>Scope for future extension</u>.



Corporate Governance Analytical Framework

Company Analytical Structure Country Analytical Structure

- Ownership Structure and External Stakeholders
- Investor Rights and Relations
- Transparency & Disclosure
- Board Structure & Process

- Market Infrastructure
- Legal Infrastructure
- Regulatory Environment
- Informational Infrastructure



Standard & Poor's Corporate Governance Services: Company Scoring Criteria

Ownership Structure & External Stakeholders

- > Transparency of Ownership
- > Concentration and influence of ownership
- Influence of external stakeholders

Investor Rights and Relations

- > Voting and shareholder meeting procedures
- > Ownership rights
- Stakeholder Relations

Transparency & Disclosure

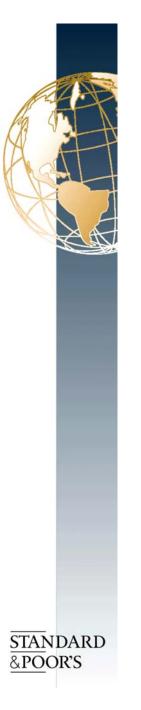
- Quality and content of public disclosure
- Timing of, and access to, public disclosure
- The audit process

Board Structure & Process

- > Board structure and independence
- > Role and effectiveness of the board
- Board/executive compensation



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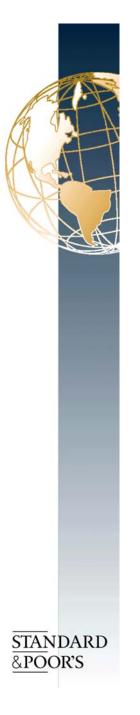
Governance Scoring Criteria: Is there a global standard?

- Governance structures and philosophies differ globally
 - Shareholder versus broader stakeholder focus
 - Legal and cultural dimensions
 - Examples
 - One tier versus two tier boards
 - Concentrated ownership versus widely held ownership

Principles- based approach

- > Fairness
- Transparency
- > Accountability
- > Responsibility

Need to interpret individual structures through lens of overarching principles that should be relevant in a global context



Moving beyond the financial approach to governance to sustainability metrics

Business Model

- What is the value proposition: who would use this and why?
- Mainstream versus "specialist" investors
- **Focus on corporate social responsibility: ethical perspective**
- **Focus on sustainability as a risk factor: financial perspective**
 - Intangible Asset
 - Contingent Liability



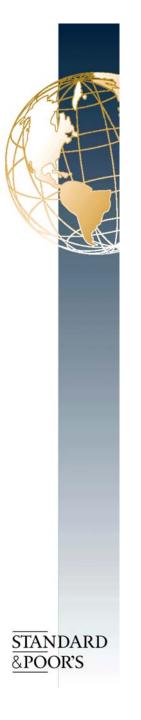


Moving beyond the financial approach to governance to sustainability metrics

Analytical Issues

- Objective measures for qualitative criteria
- Data quality to support measurement of qualitative critieria
 Need for more robust disclosure and reporting
- Many individual measurements (multidimensional scaling) or one composite measure
- □ If a composite measure, how to weight diverse variables
- Empirical linkage of sustainability benchmarks and company performance

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Moving beyond the financial approach to governance to sustainability metrics

Analytical Framework: New Metrics

- Natural Capital
 - Use of energy and renewable resources
 - Pollution
 - Recyclability
- Human Capital
 - Training and development
 - Diversity and equal opportunity
 - Workplace safety and relations
- Social Capital
 - Community engagement
 - Corporate philanthropy
 - Costs/benefits to local economy

