

March 2009

# **A Review of ESG Practices in Large Emerging Market Companies**

---

---

SIRAN 

  
Social Investment Forum

**EIRIS**

## Executive summary

Corporate responsibility, long seen as the preserve of major companies in developed economies, is gaining ground in corporations of emerging markets. This paper analyses the state of corporate responsibility in emerging markets as companies strive to compete with their peers in the global market. By using a subset of EIRIS' assessment methodology and publicly available documentation, 40 leading companies in ten emerging markets were examined and each company was assessed against key environmental, social and governance (ESG) criteria. These indicators included board practice, bribery, human rights, labor standards in the supply chain, health and safety, environment, climate change and biodiversity. This analysis illustrates how the largest corporations in developing economic markets are addressing ESG issues.

The study's relatively small sample size and focus on the disclosure of large companies means that caution should be used when extrapolating the findings. However, a number of interesting trends emerged during the analysis:

- Companies scored much better in environmental areas than in social or governance areas, with some reaching grades on a par with developed country environmental leaders in environmental performance and systems.
- Companies in higher impact sectors, including those in the resources sectors, performed better on issues such as health and safety and environment, where the risks are typically greater. However, climate change disclosure remains an area where emerging market companies lag in establishing good reporting practices.
- Public disclosure of key governance issues was high, including director remuneration (33 out of 40 companies) and the separation of the roles of chair and CEO (28 out of 40 companies).
- The selected South African and Brazilian companies stood out overall as consistently having the highest assessments among the companies sampled. These countries also developed some of the first responsible investment indices in emerging markets, acknowledging investor interest with ESG performance.

This study's findings indicate that the majority of the 40 emerging market companies have shown evidence of addressing at least some ESG issues in their public disclosures. While there is still considerable variation in performance, it appears that the evaluated companies have established better environmental policies in a general comparison to social and governance systems. These observations can present opportunities as well as risks for investors to consider in emerging markets.

## **Contents**

<b>1. Introduction.....</b>	<b>4</b>
<b>2. Methodology.....</b>	<b>4</b>
<b>3. Results.....</b>	<b>6</b>
<b>3.1 Environment.....</b>	<b>6</b>
<b>3.1.1 Environmental issues.....</b>	<b>6</b>
<b>3.1.2 Climate change.....</b>	<b>10</b>
<b>3.1.3 Biodiversity.....</b>	<b>13</b>
<b>3.2 Social .....</b>	<b>15</b>
<b>3.2.1 Human rights.....</b>	<b>15</b>
<b>3.2.2 Labor practices in the supply chain.....</b>	<b>18</b>
<b>3.2.3 Health and safety.....</b>	<b>19</b>
<b>3.3 Governance.....</b>	<b>21</b>
<b>3.3.1 Board practice.....</b>	<b>21</b>
<b>3.3.2 Bribery.....</b>	<b>25</b>
<b>4. Comparisons with developed markets.....</b>	<b>28</b>
<b>5. Conclusions.....</b>	<b>30</b>
<b>6. Recommendations for Investors.....</b>	<b>34</b>
<b>6.1 Engaging to improve company performance.....</b>	<b>34</b>
<b>6.2 Seeking better corporate disclosure.....</b>	<b>35</b>
<b>7. Appendices .....</b>	<b>36</b>
<b>7.1 Appendix I – About EIRIS and its partner network.....</b>	<b>36</b>
<b>7.2 Appendix II – List of companies in the study.....</b>	<b>37</b>
<b>7.3 Appendix III – Sector summary.....</b>	<b>38</b>

## 1. Introduction

Corporate responsibility, often seen as the preserve of major companies in developed economies, is gaining ground in emerging markets. Initiatives such as the UN Global Compact (UNGC), the UN Principles for Responsible Investment and the Carbon Disclosure Project are increasingly focusing on emerging markets as investors turn towards these markets; attracted to their traditionally dramatic, if volatile, returns. Even though emerging markets investments typically account for only a small portion of their portfolios, developed country investors' exposure to emerging markets is much larger than is implied by their notional allocations, given the operational exposure of developed world multinationals to emerging markets. Combining responsible investment with corporate responsibility actions provides a unique set of risks and opportunities for investors. Disparities in corporate responsibility performance as well as developments in corporate responsibility research in emerging markets may also create market inefficiencies and thus opportunities from which clever investors can profit, although emerging market volatility may need to diminish before ESG issues add or subtract noticeably with shareholder value.

Linking into this is the ongoing Emerging Markets Disclosure Project (EMDP). This is an international initiative, spearheaded by the International Working Group (IWG) of the Social Investment Forum to improve sustainability disclosure in emerging markets. So far the project has surveyed the current state of sustainability reporting in several emerging markets and has a sign-on statement for investors encouraging emerging market companies to improve sustainability reporting<sup>1</sup>. As of January 2009, the sign-on statement has been endorsed by 28 global institutional investor signatories and 15 affiliated supporters (NGOs and research organizations). The final stage of the project focuses on targeted outreach and engagement in order to promote disclosure by companies based in Brazil, China, India, Russia, South Africa, South Korea and Taiwan.

This paper is based on a report prepared for the UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting twenty-fifth session in November 2008<sup>2</sup>. Of the ten emerging market countries analyzed, this study looks into the corporate responsibility practises and trends in the top four companies by market capitalisation. This analysis will serve to show how some of the largest emerging market companies are coping with environmental, social and governance issues. A methodology is set out with a results section. The data has been analysed both along country and industry lines to identify broad trends in corporate responsibility.

## 2. Methodology

EIRIS assessed the companies primarily by looking at publicly available information published by the company, including annual reports, sustainability/CSR reports, company documents and company websites. The data examined relates to 40 companies in total – the largest four companies by market capitalisation from ten large emerging markets countries, Brazil, China, India, Indonesia, Israel, South

---

<sup>1</sup> Emerging Markets Disclosure Project: <http://www.socialinvest.org/projects/iwg/>

<sup>2</sup>2008 Review of the corporate responsibility performance of large emerging market enterprises [http://www.unctad.org/en/docs/c2isarcrp3\\_en.pdf](http://www.unctad.org/en/docs/c2isarcrp3_en.pdf)

Korea, Malaysia, Mexico, Russia, and South Africa (please see Appendix II for the list of industries, and companies). The research was largely conducted by EIRIS, with Brazilian, Israeli, Korean, and Mexican companies researched by members of the EIRIS partner network. Ecodes was responsible for researching Brazilian and Mexican companies, Greeneye for Israeli companies and KOCSR for Korean companies. Please see Appendix I for a description of the research houses involved. All figures are based on information extracted from the EIRIS databases as of August 2008.

The paper is devoted to illustrating how companies from different countries score against several of the key ESG risks that companies face and key sustainability issues of interest to investors. Companies are graded according to EIRIS methodology which benchmarks companies against best practice in each area studied. This report focuses on the issues identified by the UN Global Compact, utilizing the following EIRIS criteria:

**Table 1. Assessed criteria**

<b>Environment</b>	Environmental issues Climate change Biodiversity
<b>Social</b>	Human rights Supply chain Health & safety
<b>Governance</b>	Board practice Bribery

Trends are reported by country and industry sector. Companies have been grouped into industries based on their Industry Classification Benchmark (ICB) classifications.<sup>3</sup> The ICB system allocates companies to sub-sectors based on a definition that most closely describes the nature of its business. The nature of a company's business is determined by its source of revenue. Sub-sectors are then amalgamated into sector groups which are then fed into broad industry classifications. The sector summary can be found in Appendix III.

It is important to take company impact or level of risk that a company may face into account when analyzing a company's corporate responsibility activities. For this paper, this has been determined for the following areas: Environment, Climate change, Biodiversity, Human rights, Supply chain and Bribery. In these areas, companies are assigned an impact or risk indicator determined by examining the nature and location of companies' operations - further details are available for each issue in the relevant sections. As a result, sample sizes vary from issue to issue (see Table 1) as companies with a sufficient significant exposure to issues such as Human rights, Supply chain, Climate change, or Biodiversity are assessed. Companies that are deemed to be 'low risk' in these areas are not assessed. The imbedded graphs are generally color coded as per the information shown in Table 3 below.

<sup>3</sup> [http://www.icbenchmark.com/docs/English\\_Structure\\_Defs.pdf](http://www.icbenchmark.com/docs/English_Structure_Defs.pdf)

**Table 2: Sample of companies examined**

Total number of companies: 40			
<b>Risk exposure:</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
Bribery	21	16	3
Human Rights	18	12	10*
Supply Chain	4	2	34*
Environment	18	14	8
Climate Change	17	1	22*
Biodiversity	11	4	25*

\* Policy, systems and reporting are not assessed for these companies

**Table 3: Color coding of graphs**

	Advanced
	Good
	Intermediate, High exposure
	Limited, Medium exposure
	No evidence, Low exposure
	No exposure

**Table 4: Grading system**

	<b>Grade</b>	<b>Explanation</b>
<i>Lowest</i>	No evidence	No evidence of the selected indicators
↓	Limited	There is some evidence that the company is aware of this issue and has taken steps to address it
	Intermediate	The company is some way towards managing the issue
	Good	The company is managing the issue well
<i>Highest</i>	Advanced	This category is intended to identify leading companies that may be gaining a competitive advantage (with stakeholders or society in general) by addressing the issues

### 3. Results

#### 3.1 Environment

##### 3.1.1 Environmental Issues

Issues such as climate change, water shortages and local pollution are driving the environmental agenda in many emerging markets. EIRIS classifies companies as 'high', 'medium', or 'low impact' based on the direct impacts of their business activities within the following key issues: energy use, air pollution, water pollution,

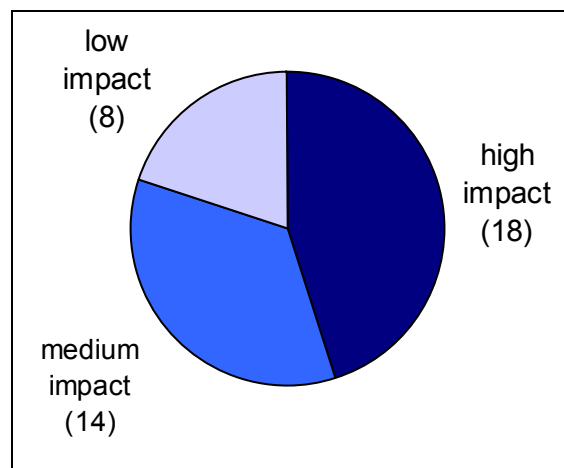
waste, and water consumption. The sample of emerging market companies were then evaluated on their responses to environmental issues under the following categories according to the EIRIS methodology: policy, management systems, and reporting. Based on their response in each of these categories, the companies were assigned one of five assessment grades – ‘no evidence’, ‘limited’, ‘moderate’, ‘good’, and ‘advanced’. Examples of indicators used in this study to assess companies’ environmental policies and practices include setting objectives and targets in key areas, quantitative data on all key impacts, and environmental management system coverage.

### Key findings

More than two thirds of the companies in the study were in ‘high’ or ‘medium’ impact sectors. It was interesting to find that the assessed companies had scored much better for environmental areas than for social or governance areas, with many achieving good or advanced scores, grades more comparable to companies in developed economies<sup>4</sup>. As expected, high impact companies such as those in the resource sector had better environmental policies, systems and reports. However, some low or medium impact companies had also scored well.

The assessments for environmental areas were highest for the four South African companies. One of the reasons for this is that the Johannesburg Stock Exchange requests listed companies to report annually on the nature and extent of their environmental management policies and practices (among other corporate responsibility indicators) as part of their submission to the JSE SRI index. The four Brazilian companies studied also stand out in terms of their excellent assessments. The two Korean companies who received advanced grades for environmental systems have significant international operations and over 95% of their operations are ISO 14001 certified. Many Korean companies, like their Japanese neighbors, have recognized that ISO 14001 certification is an important strategy for industrial competition and for improving company and product recognition.

**Figure 1. Environmental impact** (number of companies)

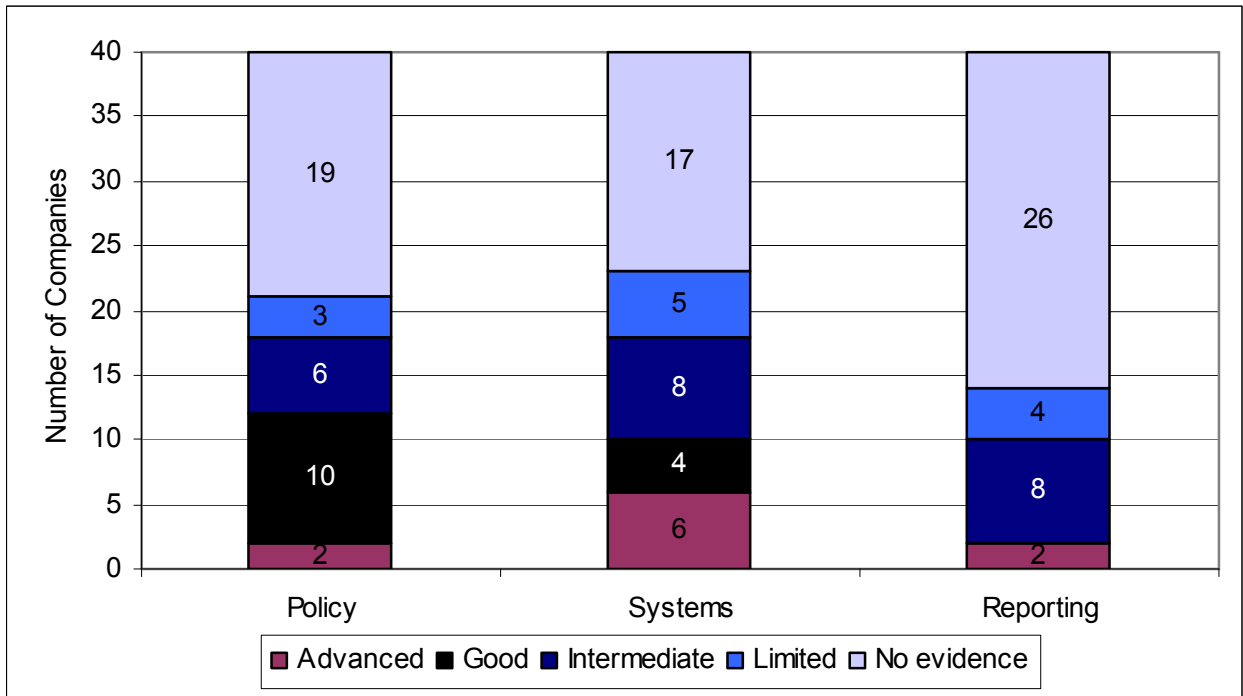
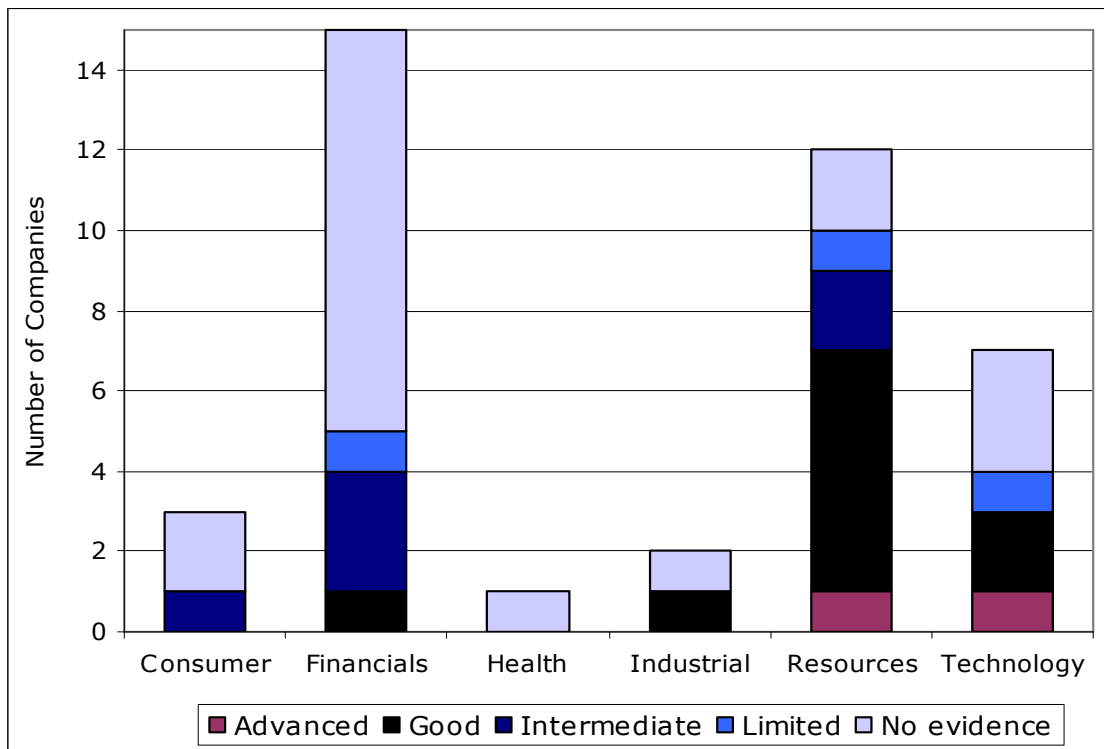


<sup>4</sup> The State of Responsible Business in 2008

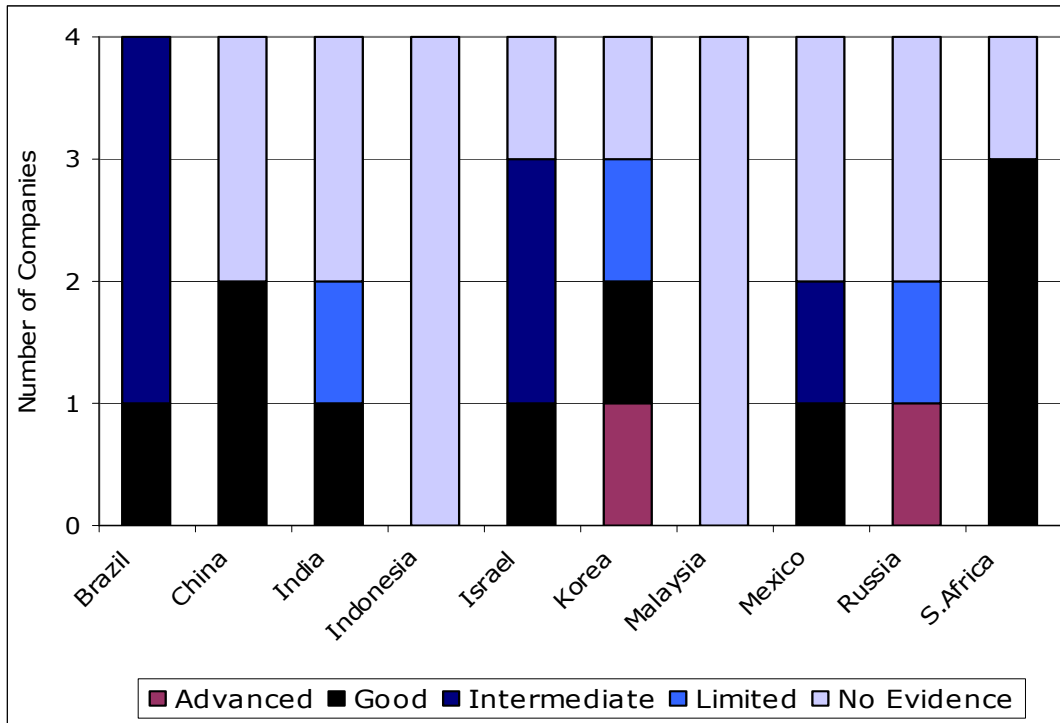
<http://www.eiris.org/files/research%20publications/stateofrespbusinesssep08.pdf>

**Figure 2. Environmental management**

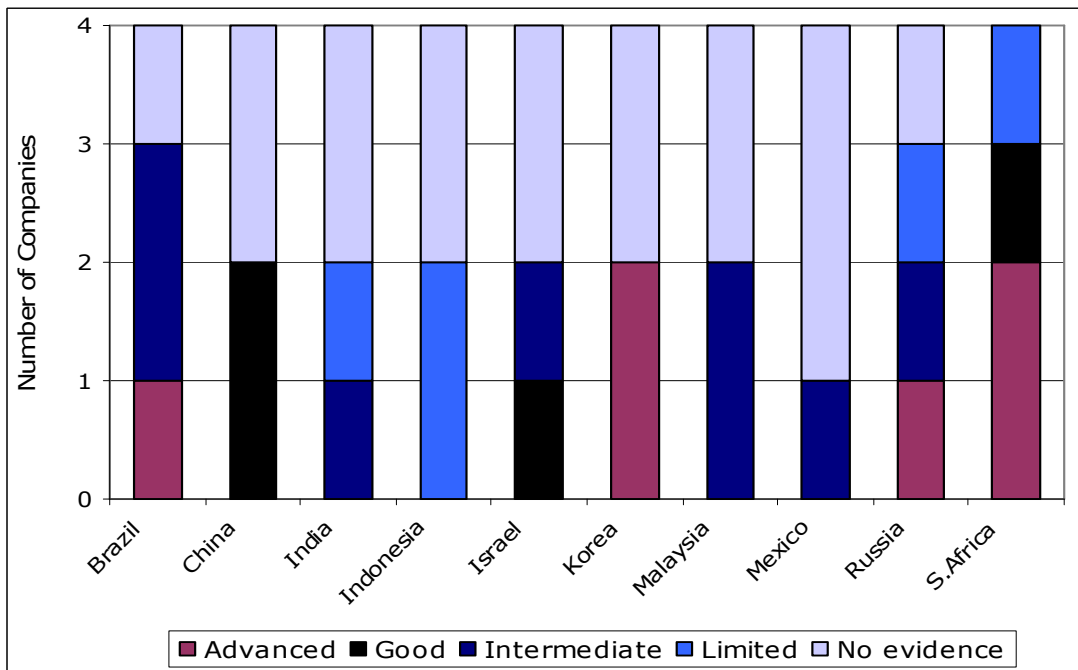
(Companies assessed for environmental management =40)

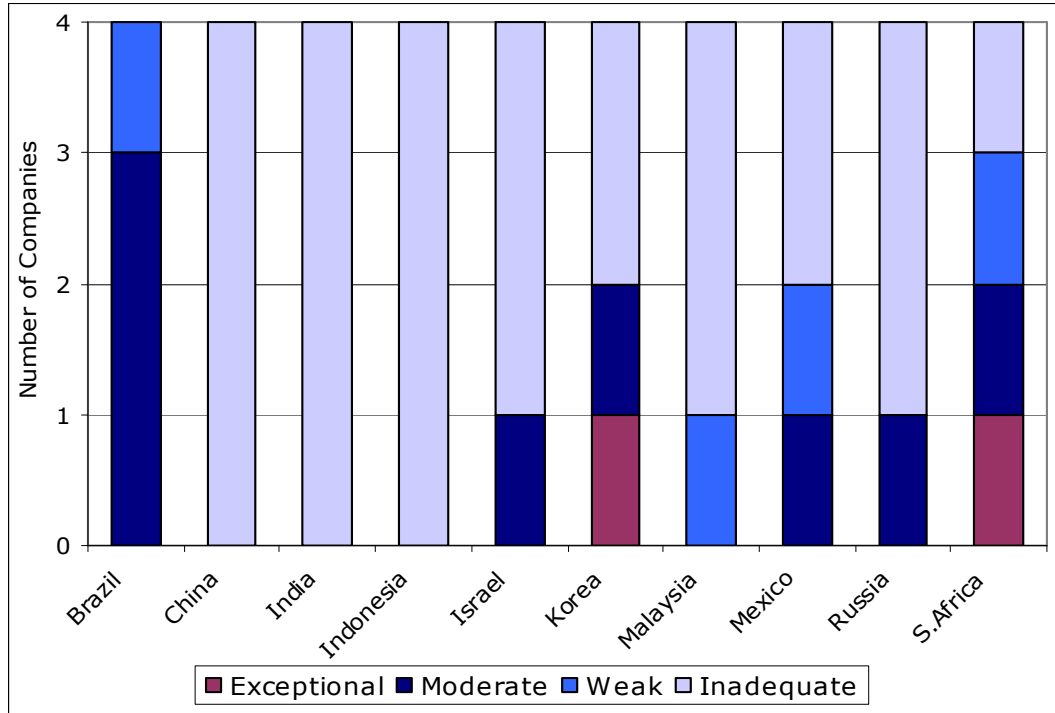
**Figure 3. Environmental policy by industry**

**Figure 4. Environmental policy by country**



**Figure 5. Environmental systems by country**



**Figure 6. Environmental reporting by country**

### 3.1.2 Climate change

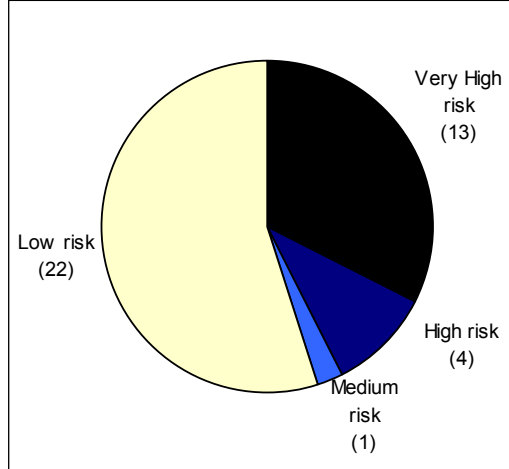
Climate change has the potential to impact shareholder value, especially as increasingly strict regulation is introduced and emissions trading schemes are developed. There is more focus on the issue in emerging markets companies now that the Climate Disclosure Project (CDP) has five of its 14 partners located in emerging markets, including Brazil, China, India, South Korea and South Africa. Four of the five emerging market partners have been added since 2007. EIRIS examined companies' risk exposure, management response to the issue as well as disclosure of data, researching policy and governance, strategy and performance. Companies are categorized as 'very high', 'high', 'medium', or 'low risk'. This is based on the direct, indirect and product emissions over which the companies have control. In this study, companies which were deemed to be 'low risk' for climate change were not assessed. 'Very high', 'high' and 'medium' risk companies were then assessed on their management response and disclosure of company performance. Indicators include evidence of target setting and disclosure of emissions, as well as disclosure of performance against targets. Based on their performance in each of these categories, the companies were assigned one of five assessment grades: 'no evidence', 'limited', 'intermediate', 'good' and 'advanced'.

#### Key findings

A total of 18 out of the 40 companies in this study were seen as having a medium to very high risk for climate change. The management response to climate change was strongest among the resource companies, as might have been expected given the energy intensive nature of the industry. However it is interesting to note that six out of 12 resource companies had no evidence of climate change disclosure while five of

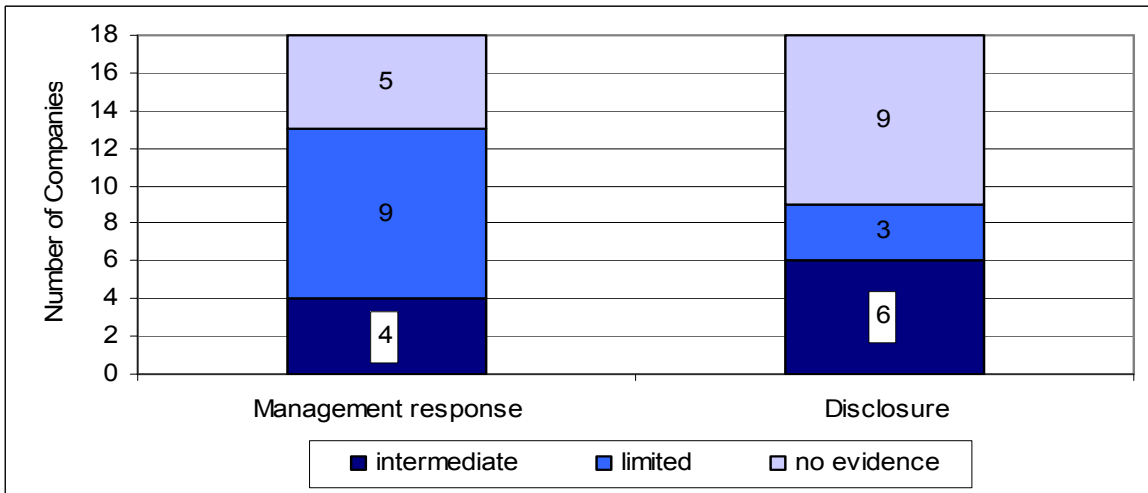
the remaining six companies attained an intermediate grade. Given the very high impact that most of these companies have on climate change, this should be a serious concern both for regulators and for investors in these markets.

**Figure 7. Climate change risk (number of companies)**

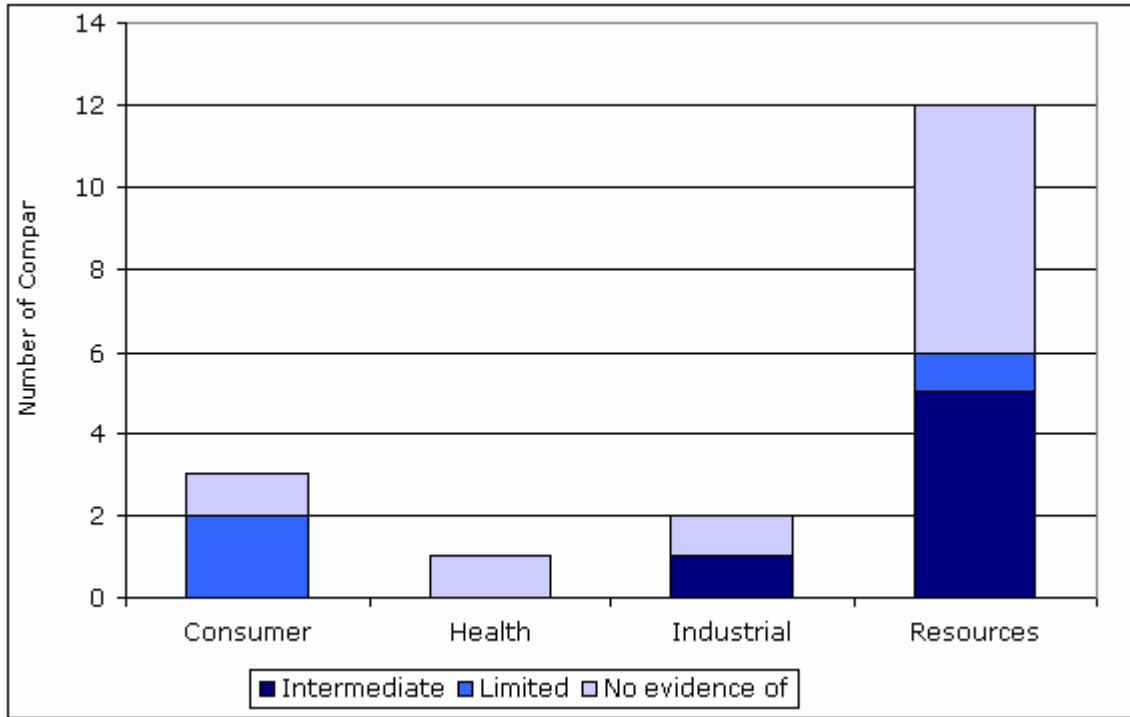


**Figure 8. Climate change overall**

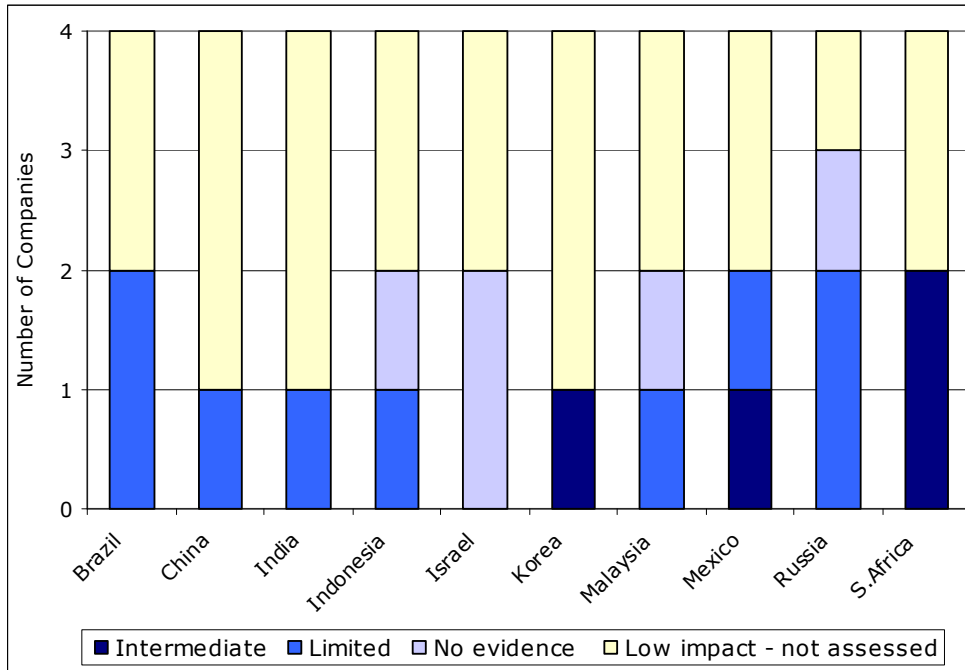
Companies assessed for climate change = 18

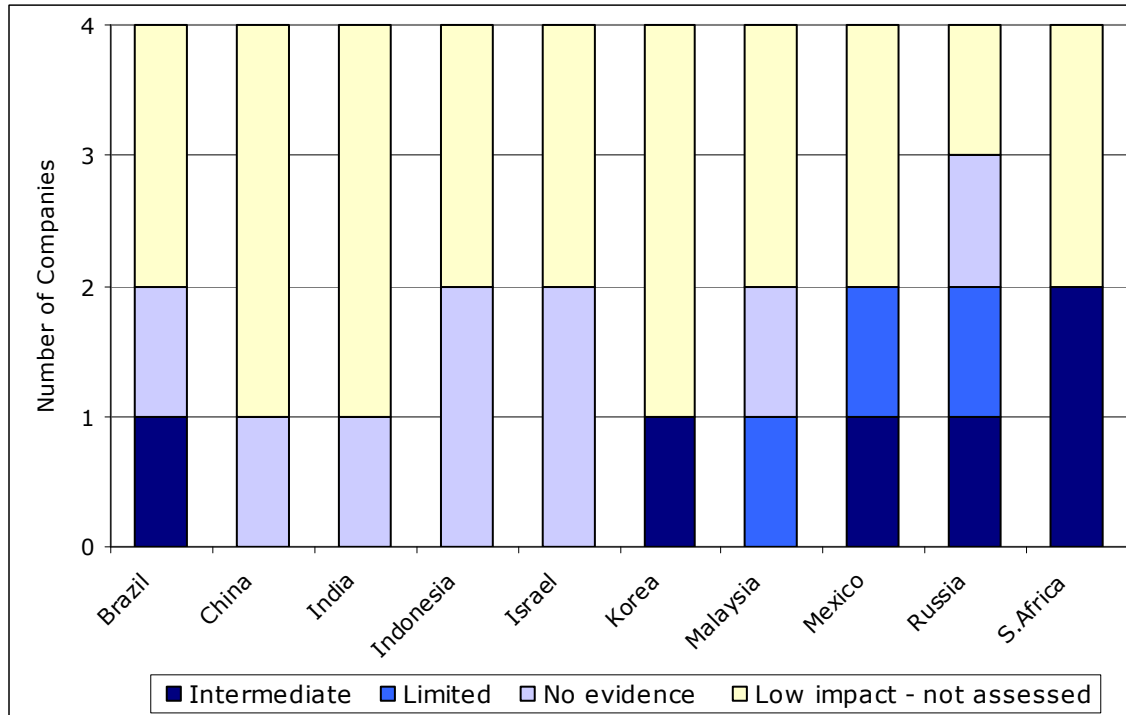


**Figure 9. Climate change disclosure by industry**



**Figure 10. Climate change management response by country**



**Figure 11. Climate Change disclosure by country**

### 3.1.3 Biodiversity

The biggest threat to biodiversity is from changes in land use leading to habitat destruction, fragmentation or simplification. Biodiversity has practical implications for business. Many businesses, for example forestry, fishing and agriculture depend directly on biological resources, and destruction of biodiversity is therefore a risk to their resource base. Others may depend on the quality of the local environment or require ecosystem 'services' for example, the purification of sewage discharges by river systems. For the purposes of this paper, biodiversity policies were assessed for the 15 companies that were categorized as medium or high risk for this issue. Companies' biodiversity policies were graded as 'no evidence', 'limited', 'intermediate', or 'good'. Examples of indicators used in this study to assess companies' biodiversity policies and practices include evidence of a biodiversity action plan, assessment of potential for enhancement and disclosure of biodiversity improvements.

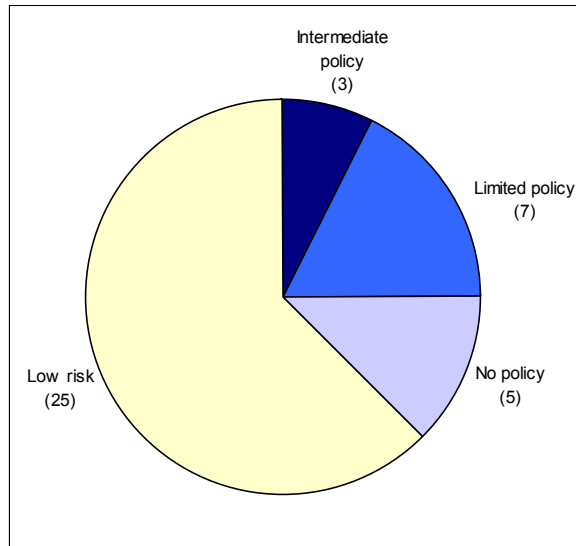
#### Key findings

Out of the 40 companies evaluated, 25 companies were in sectors for which biodiversity was not a significant issue and so were not assessed. Five of the remaining 15 companies did not have a biodiversity policy; seven had a 'basic' policy

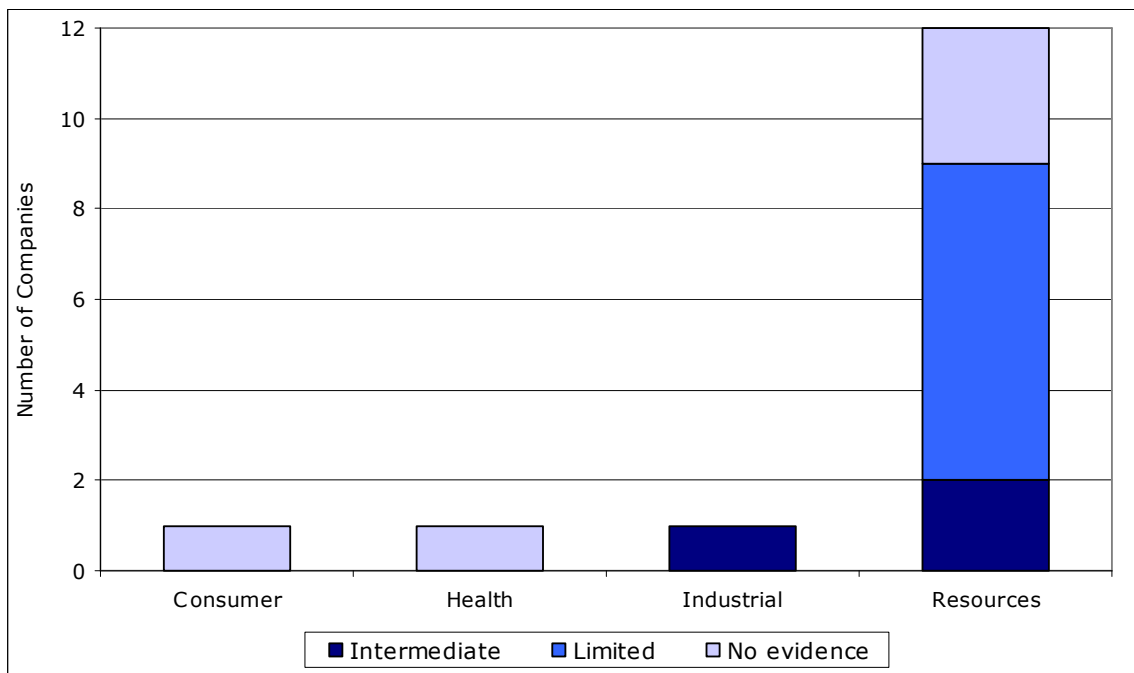
while three were assessed as having a 'moderate' policy. No companies had a 'good' biodiversity policy, the highest grade available. Resource and industrial companies had more comprehensive biodiversity policies than those in the consumer or health industries. Companies grouped into the financial or technology industries are not classified as high impact for biodiversity and so were not assessed.

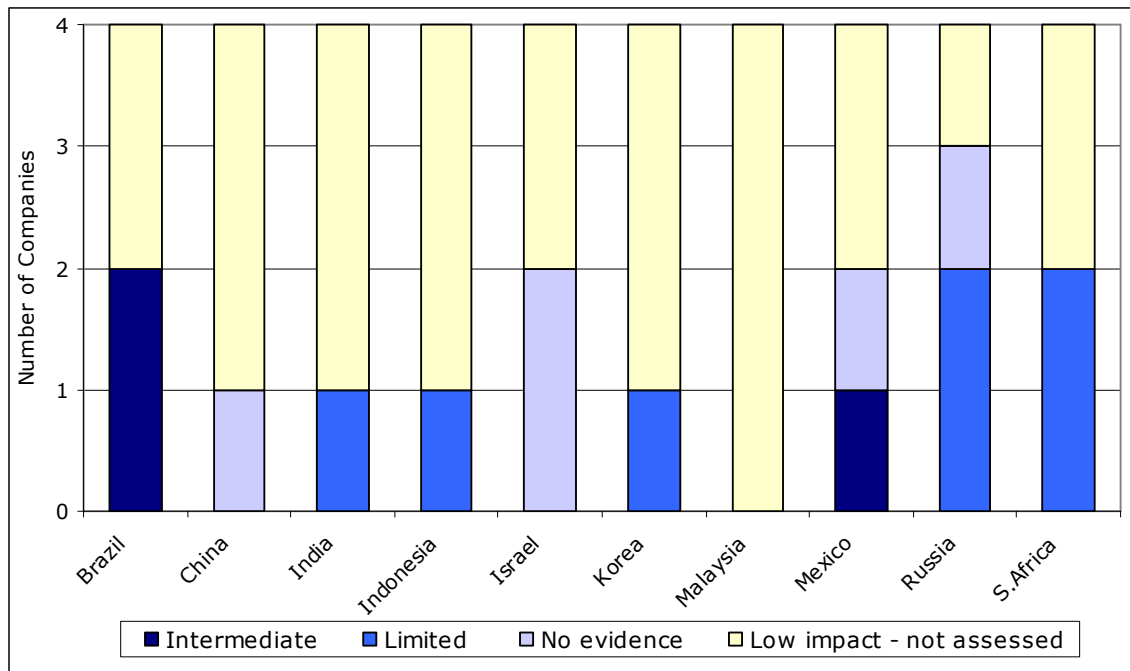
**Figure 12. Biodiversity policy**

(number of companies for biodiversity = 15)



**Figure 13. Biodiversity policy by industry**



**Figure 14. Biodiversity policy by country**

## 3.2 Social

### 3.2.1 Human Rights

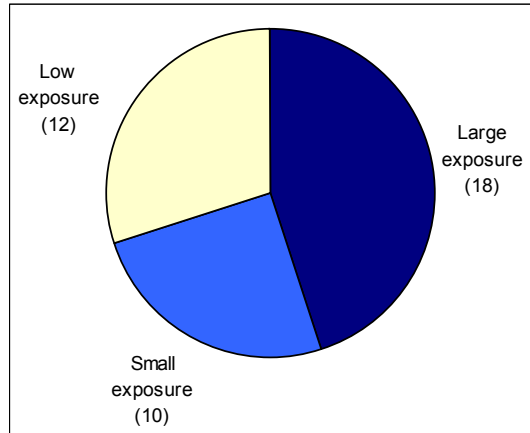
While noting that human rights violations can occur in all countries, EIRIS focused its research on particular countries where human rights are seen as most at risk (based on a risk assessment using a range of sources including Freedom House). The size of a company's operations, within an identified country of concern, was also taken into consideration (large, small or no exposure) and only those companies were evaluated. The assessment of a company's ability to deal with human rights issues was attained by looking at the quality of its human rights policy, management systems and reporting mechanisms according to EIRIS methodology. Based on the information available for each of these categories, the companies were assigned one of five assessment grades: 'no evidence', 'limited', 'intermediate', 'good' and 'advanced'.

#### Key findings

Half of the companies which had exposure to human rights issues in countries of concern had established policies on human rights. A much smaller percentage of companies, however, report on the details of their systems and performance. The data shows that there may be a greater tendency for resource companies to recognize human rights as an issue than companies involved in other sectors, a trend also seen in many developed economies which may reflect the type of work being done in each field. Ten out of eleven resource companies have some sort of human rights policies in place compared with none of the seven financial companies. The results for human rights systems and reporting show the same trend. Only two

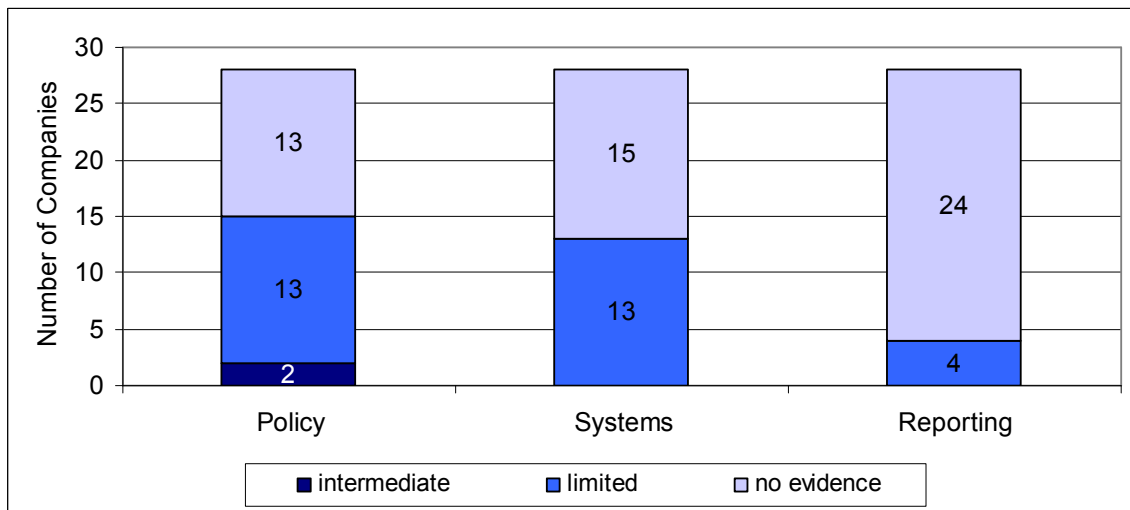
out of the 30 companies assessed for these criteria had better than a limited policy and no companies achieved above a limited grade for systems or reporting. This shows that as yet there has been little emphasis on human rights by the largest emerging markets companies). Further conclusions are limited by unequal category sizes.

**Figure 15. Exposure to human rights risk** (number of companies)

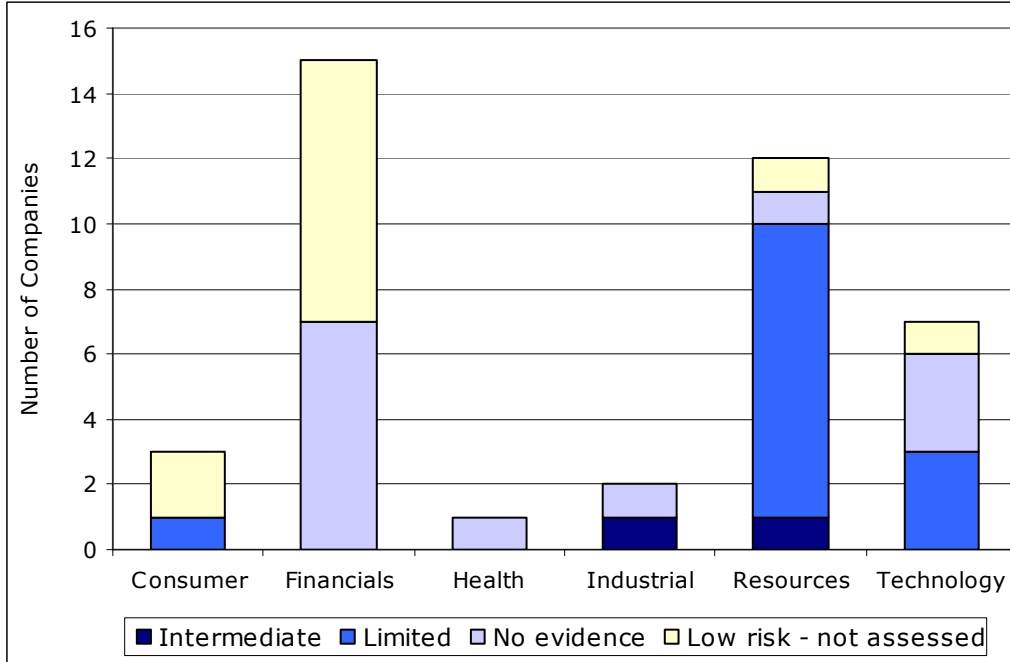


**Figure 16. Human rights overall**

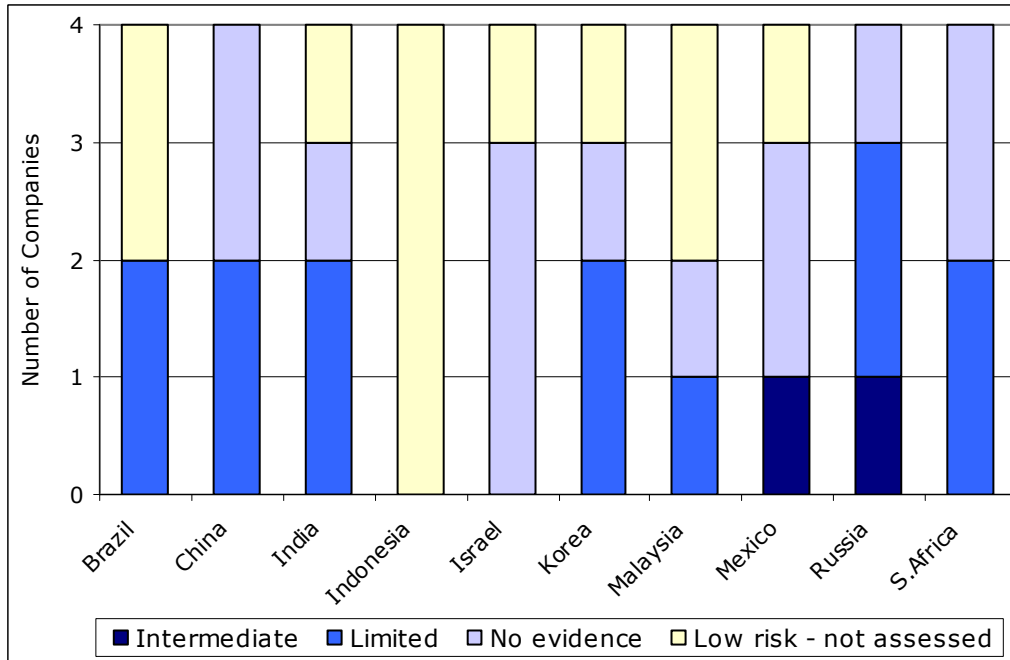
Companies assessed for human rights = 28



**Figure 17. Human rights policies by industry**



**Figure 18. Human rights policies by country**



### 3.2.2 Labor Practices in the Supply Chain

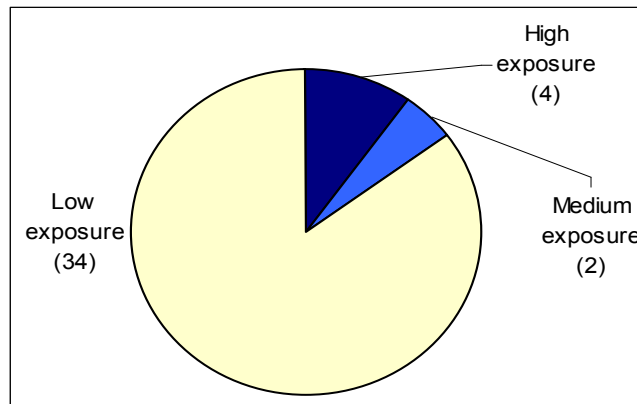
EIRIS categorized the companies according to their exposure to supply chain labor risk based on their sector, countries from where their products are sourced and the size of their operations. Companies determined as having 'high' or 'medium' exposure to supply chain labor risk were then assessed on their supply chain policy, management systems and public reporting. Based on their governance of each of these categories, the companies were assigned one of five assessment grades: 'no evidence', 'limited', 'intermediate', 'good' and 'advanced'. Indicators which were used to assess companies' supply chain labor standards policies and practices include integration of policies into procurement procedures, monitoring and auditing and procedures for addressing non-compliance.

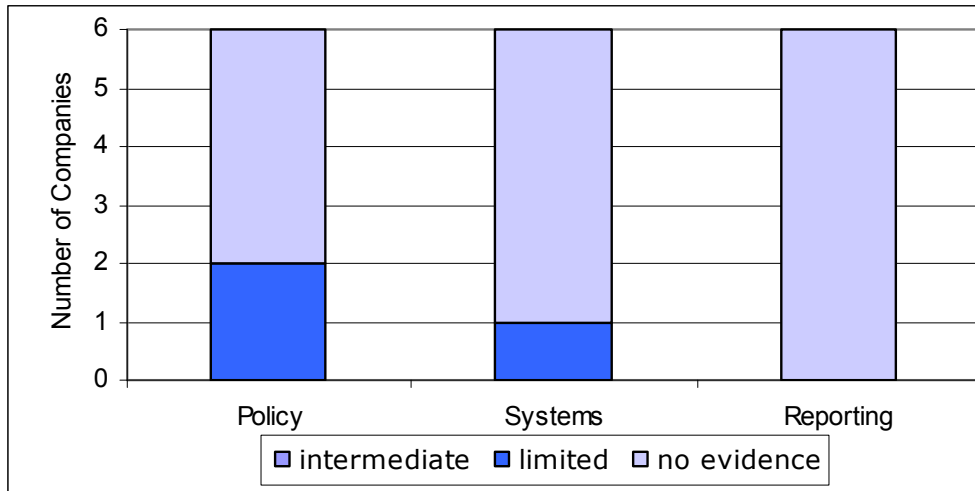
#### Key findings

As noted in Figure 19 below, only six companies from the sample analyzed were considered to face a 'high' or 'medium' supply chain risk exposure; therefore, caution should be used in drawing firm conclusions from this small sample size. Only two companies had a supply chain policy for labor standards and they only met the limited assessment. One company had a limited system for assessing compliance with its policy and none of the companies reported on supply chain labor standards. While the sample size is small, these findings support those in the area of human rights, namely that there has been little emphasis on these issues by the largest emerging market companies.

**Figure 19. Exposure to supply chain risk**

(number of companies assessed = 6)



**Figure 20. Labor practices in the supply chain**

### 3.2.3 Health and Safety

As the treatment of workers and the improvement of employment conditions forms a major part of people's perceptions of a company's attitude to social issues, having a thorough, routinely reviewed system regulating health and safety is essential to proactively addressing these concerns. In addition, accidents can lead to facility closures, which affect company operations and profits. Major accidents such as those in Chinese and South African mines highlight the need for regulators and management to work together more effectively to maximise safety<sup>5</sup>. Trade unions can also play an effective role in securing better conditions for workers in terms of better enforcement of regulation and risk evaluation according to a 2007 Employment Conditions Knowledge Network report to the World Health Organisation<sup>6</sup>.

EIRIS assesses all companies on health and safety systems - grading companies as 'little or no evidence', 'some evidence', or 'clear evidence'. Indicators used to assess companies' health and safety practices include evidence of senior responsibility, quantitative data on its health and safety record, and details of staff training.

#### Key findings

Almost half of the companies in the sample studied showed little or no evidence of managing health and safety in their operations. However, both industrial companies

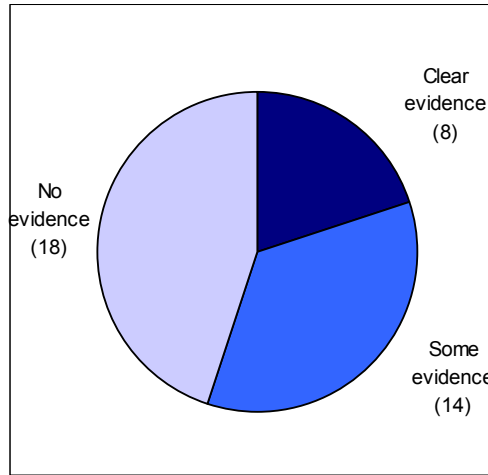
<sup>5</sup> 2008 GoldFields accident [http://www.miningweekly.com/article.php?a\\_id=132461](http://www.miningweekly.com/article.php?a_id=132461),  
2007 Harmony Gold accident <http://www.voanews.com/english/archive/2007-10/2007-10-03-voa56.cfm> ,  
2008 Chinese mining accident death toll [http://news.xinhuanet.com/english/2009-01/16/content\\_10668158.htm](http://news.xinhuanet.com/english/2009-01/16/content_10668158.htm)

<sup>6</sup> Case Study A10. Unions and safety representatives are good for worker's health. María Menéndez (Catalonian Workers Commissions, Girona, Spain) and Joan Benach (Pompeu Fabra University, Barcelona, Spain). From the Employment Conditions Knowledge Network (EMCONET) final report to the WHO 20 September 2007 'Employment Conditions and Health Inequalities' p.165

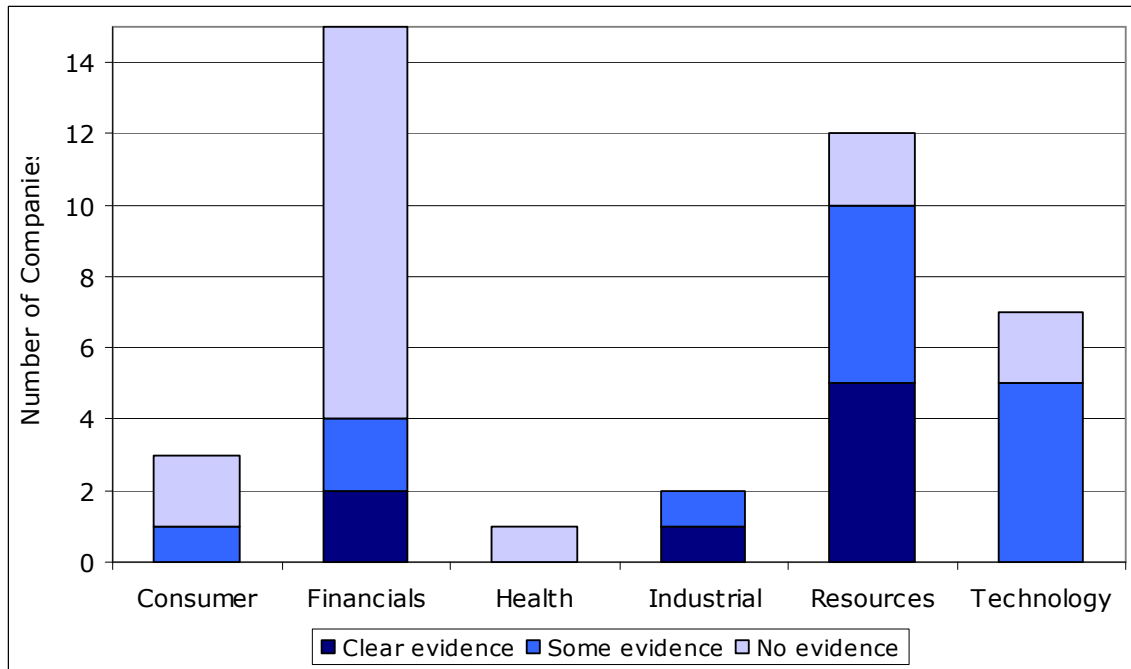
and all but two companies in the resource industry had either 'some' or 'clear' evidence of health and safety systems, compared with only four out of 15 financial companies. This shows that for the key industries where health and safety is one of their largest operating risks, these companies are managing this issue.

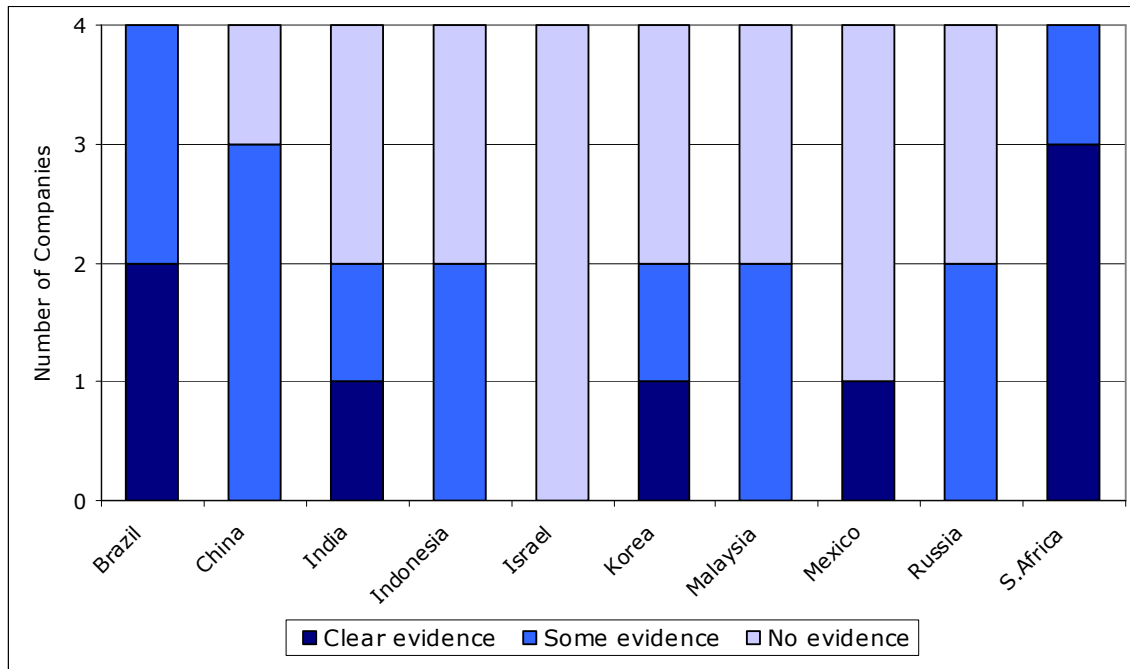
**Figure 21. Health and safety systems**

(Total number of companies = 40)



**Figure 22. Health and safety systems by industry**



**Figure 23. Health and safety systems by country**

### 3.3 Governance

#### 3.3.1 Board Practice

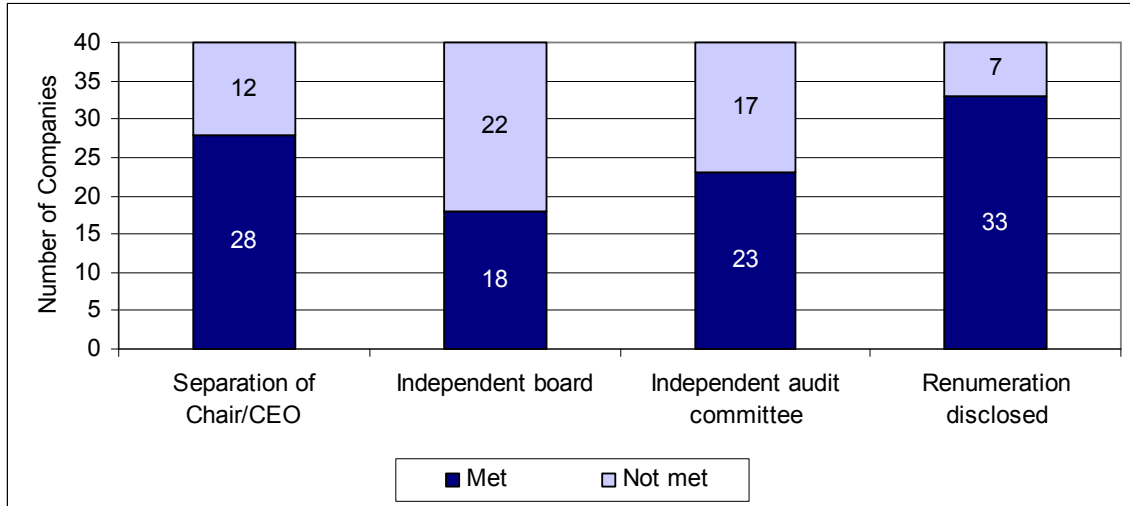
The way in which boards are structured and how directors apportion accountability should facilitate good corporate performance by ensuring that a company is managed in the best interests of its owners. EIRIS has focused on four key indicators to determine the strength of board practices – the separation of the roles of chair and chief executive, proportion of independent directors, independence of the audit committee and disclosure of director remuneration.

#### Key findings

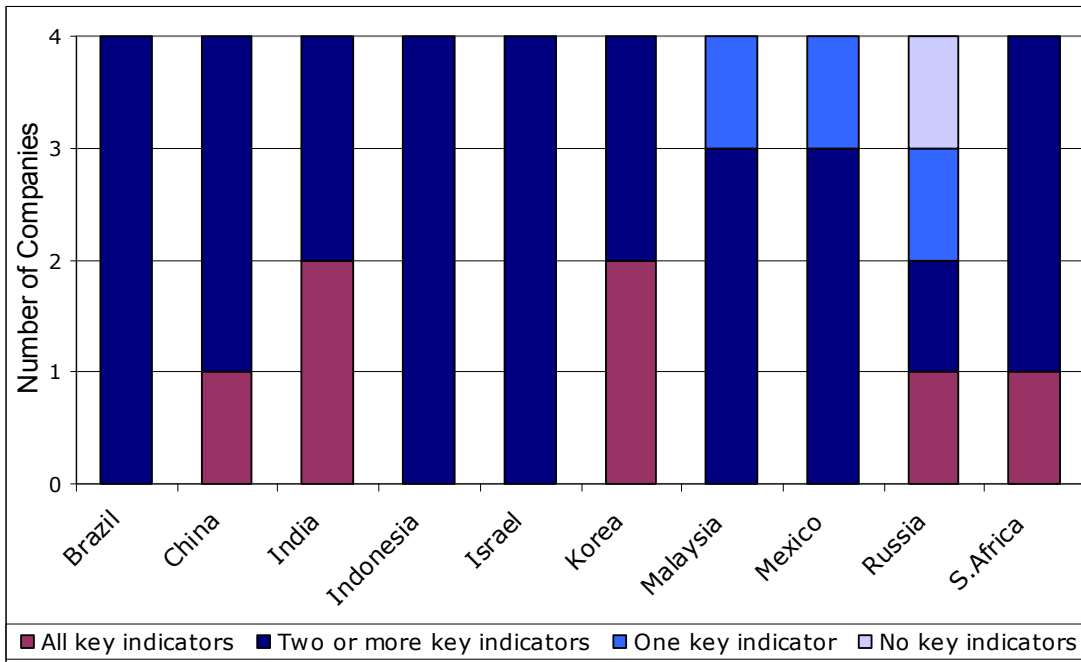
All but one of the companies in the sample studied had at least one core element of corporate governance and 36 out of 40 had at least two of the core elements of good board practice. Public disclosure of director remuneration (33 out of 40 companies) and the separation of the roles of chair and CEO (28 out of 40 companies) seemed to be much more prevalent among companies than having a board made up of at least 33% independent directors (18 out of 40 companies). 23 out of 40 companies had audit committees made up of at least 33% independent directors. The country divisions below seem to suggest that national codes may be in place in some countries. Enforcement of governance, especially if those codes have only recently been adopted may also differ by country. For example, in Russia, the level of voluntary compliance to the domestic corporate governance code differs significantly from one company to another although some larger companies who intend to enter foreign financial markets have taken steps to comply with corporate governance best practices such as actively appointing independent directors. The South African

corporate governance recommendations, the so-called King II reports, not only address core corporate governance issues, such as director independence and splitting CEO from Chair positions, but also provide guidelines for disclosing social and environmental performance.

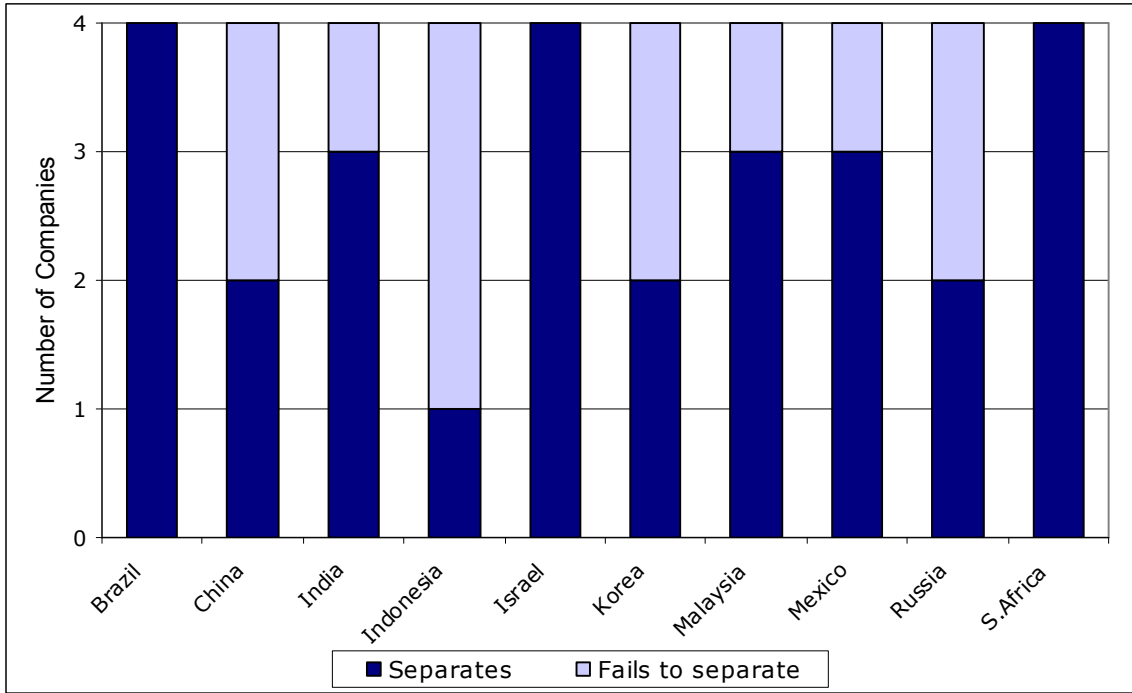
**Figure 24. Board practice overall**  
(Companies assessed for board practice =40)



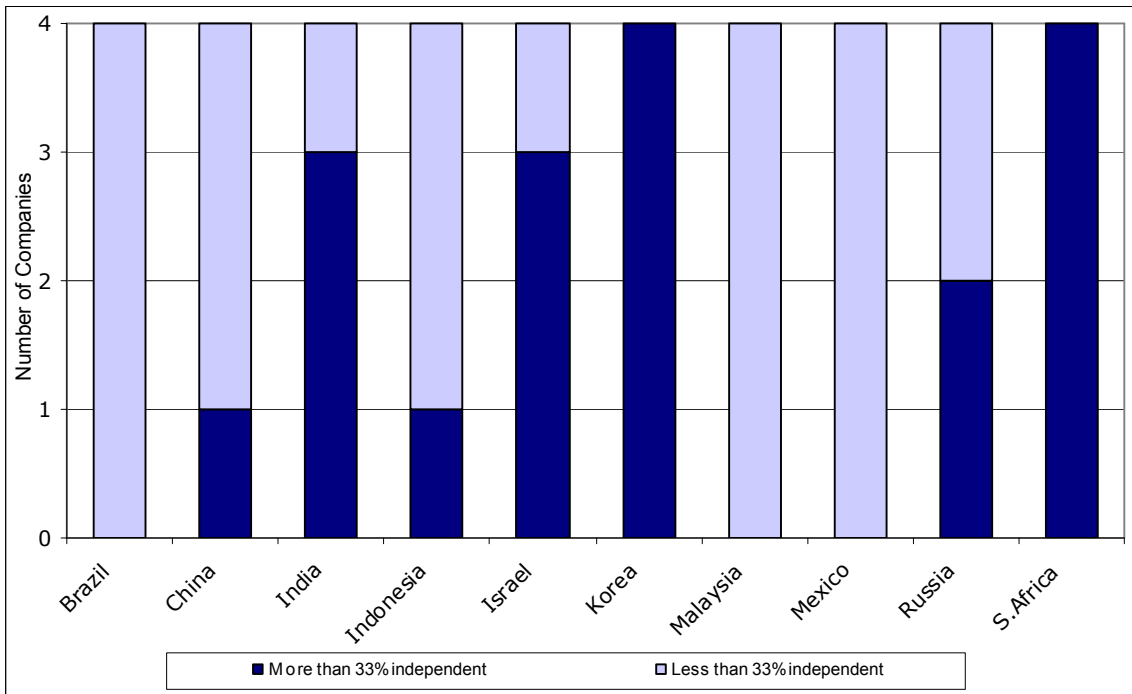
**Figure 25. Board practice by country**



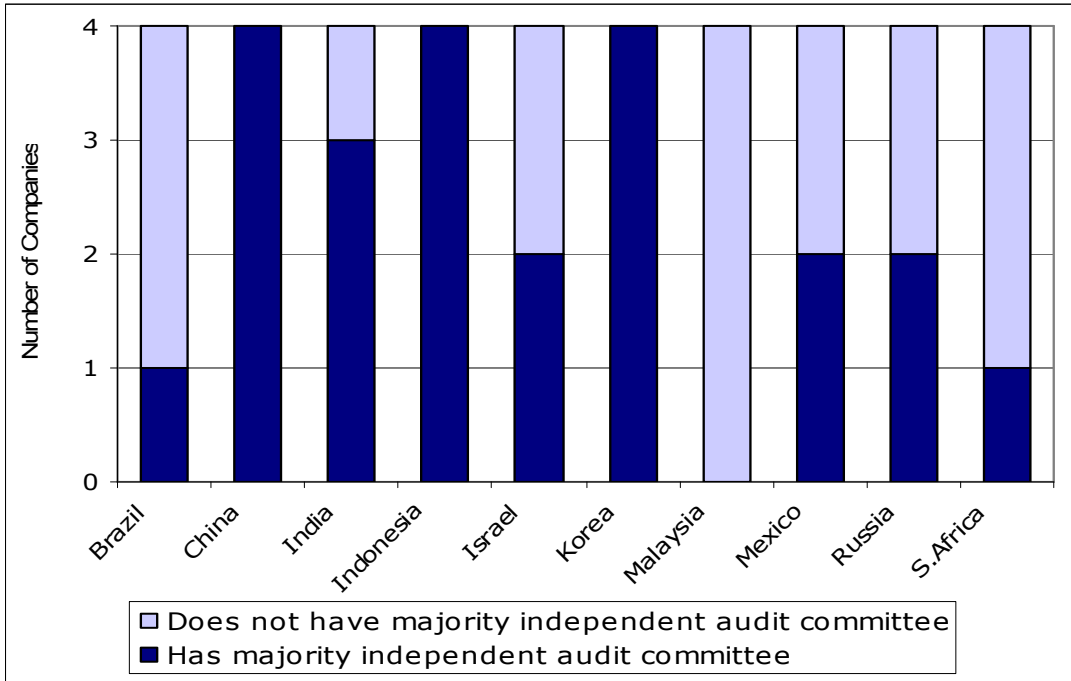
**Figure 26. Separation of chair and CEO by country**



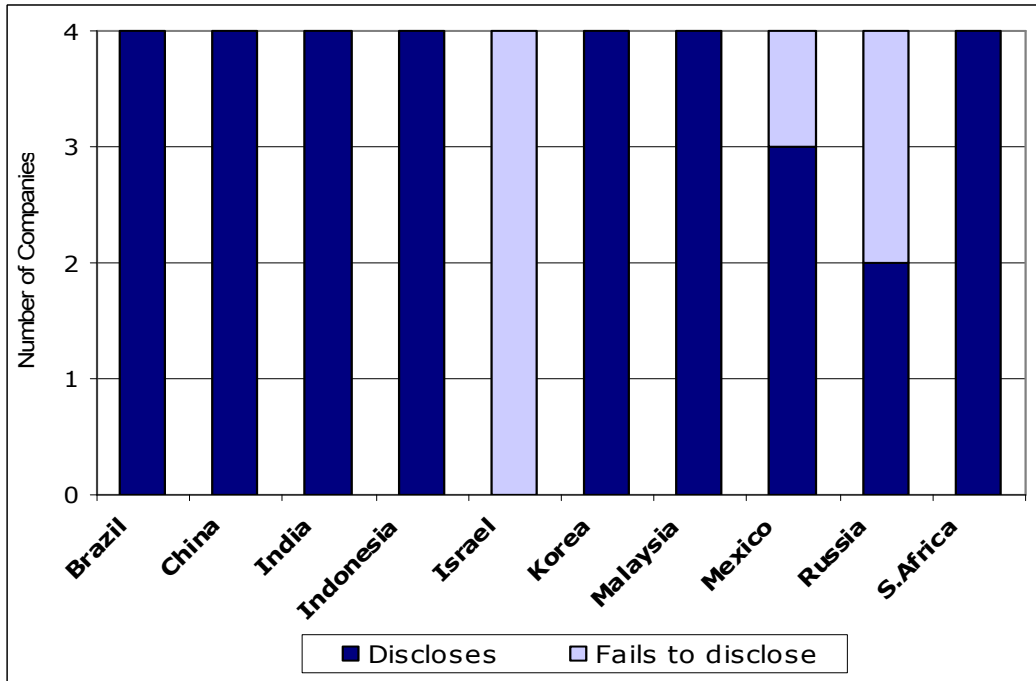
**Figure 27. Board independence by country**



**Figure 28. Independent auditors by country**



**Figure 29. Director public remuneration by country**



### 3.3.2 Bribery

Corruption has many adverse effects. By definition, as well as distorting fair competition, corrupt practices are damaging to all societies. If permitted to flourish, corruption can, in the worst instances, hinder the development of nations. The World Bank and Transparency International, a global anti-corruption NGO, have demonstrated that, in some developing countries, corruption has reduced growth by deterring foreign investment and channeling funds into "white elephant" projects.

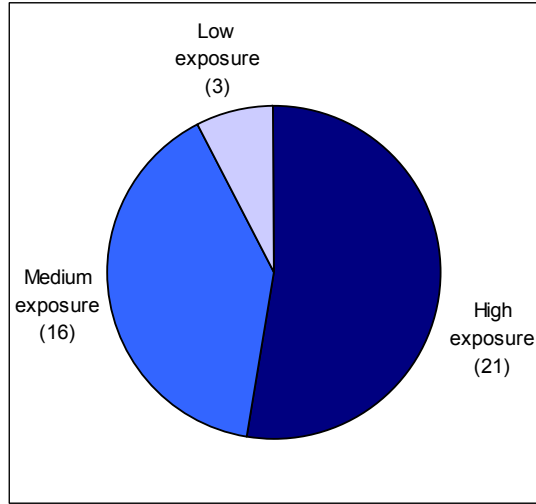
Corporate bribery and corruption can have serious consequences for investors. Corruption damages the reputations of companies and industries implicated in the practice and can have impacts on a company's informal 'license to operate'. Moreover, many countries' domestic law (including the US) makes it illegal to bribe foreign public or private officials or office-holders. Companies involved therefore risk lawsuits and material financial penalties. It can also distort fair competition in a market as well as being a symptom of deep institutional weakness, leading to inefficient economic, social and political outcomes. Now in many developed countries, regulators and prosecutors are becoming ever more vigilant and convictions and fines for business corruption are rapidly increasing.

EIRIS' criteria identify companies' risk exposure to bribery and corruption ('low', 'medium', or 'high risk') and provide a comprehensive analysis of a company's anti-bribery policy, its systems and reporting in the public domain. Based on their public information in each of these categories, the companies were assigned one of five assessment grades: 'no evidence', 'limited', 'intermediate', 'good' and 'advanced'. Indicators which are used by this study to assess companies' anti-corruption policies and practices include evidence of board commitment, whistle-blowing procedures, details of compliance mechanisms as well as monitoring and auditing, and staff training.

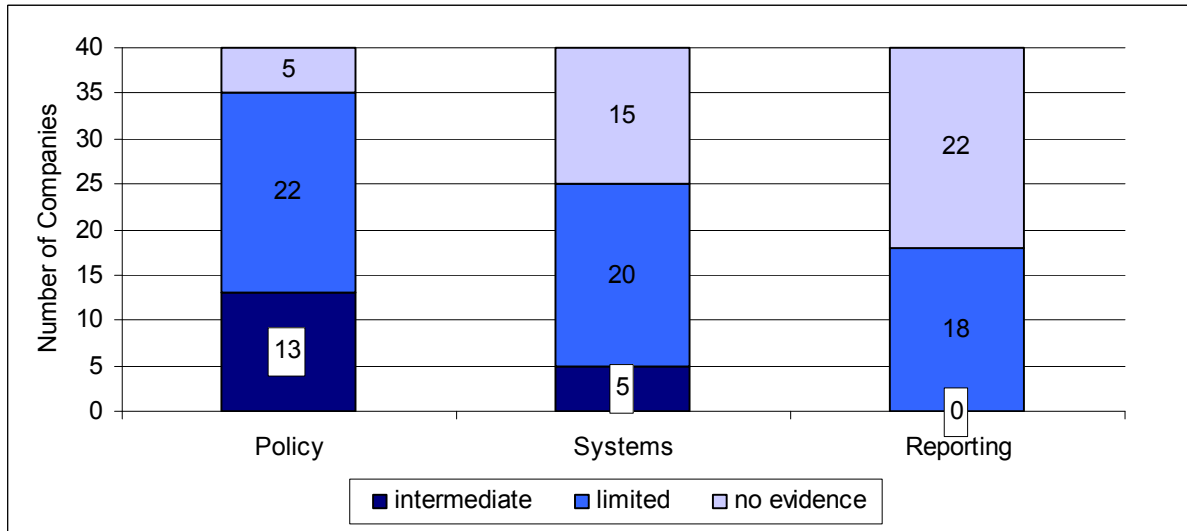
#### Key findings

For all but three companies in the sample, bribery was assessed as being a 'medium' or 'high risk' issue based on their sector, countries of operation and involvement in high risk activities such as government contracts and licensing. Most companies had a public bribery policy of some description but no companies attained a 'good' or 'advanced' grading. Fewer companies had clear systems in place to implement their policies and companies either showed no evidence of reporting on their initiatives to counter bribery or only disclosed limited details of their management systems and performance. The Brazilian companies studied seem to be the most transparent in terms of their overall initiatives to counter bribery as all four Brazilian companies had an 'intermediate' policy, all had either 'limited' or 'intermediate' systems and all had at least some level of disclosure in reporting. This may be linked to impact of the BOVESPA Corporate Sustainability Index (ISE). Korean companies also stood out as having good overall practices to counter bribery. This may be because of heightened public awareness following scandals of high profile companies in the recent past including allegations of bribing politicians, prosecutors and government officials.

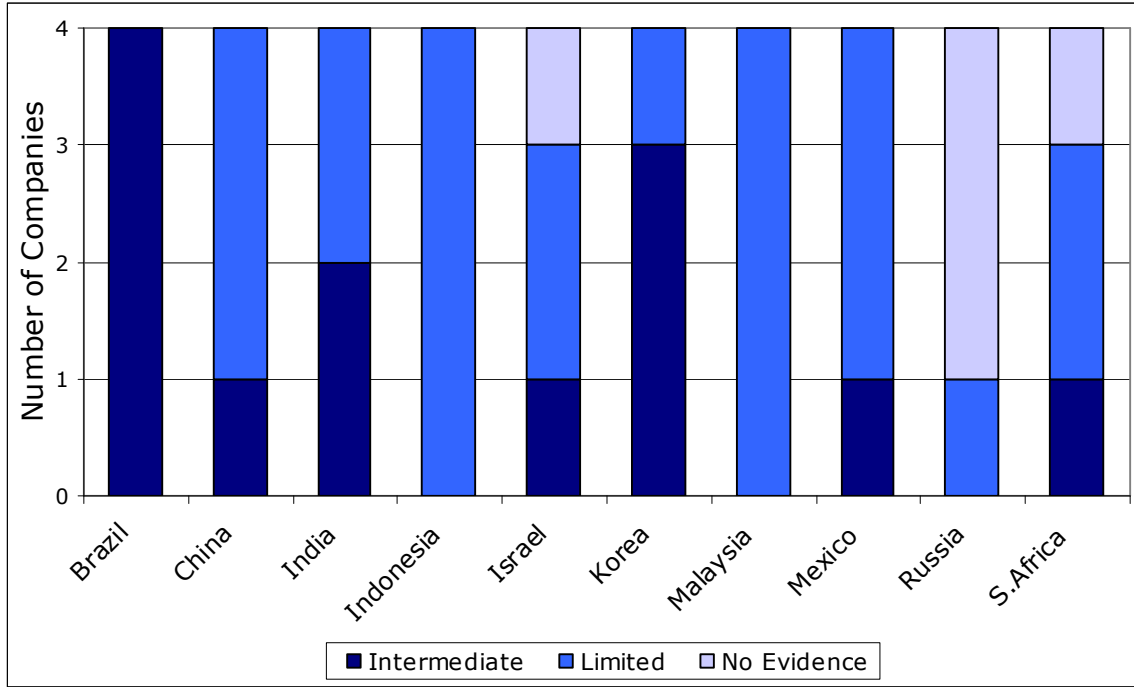
**Figure 30. Exposure to bribery (number of companies)**



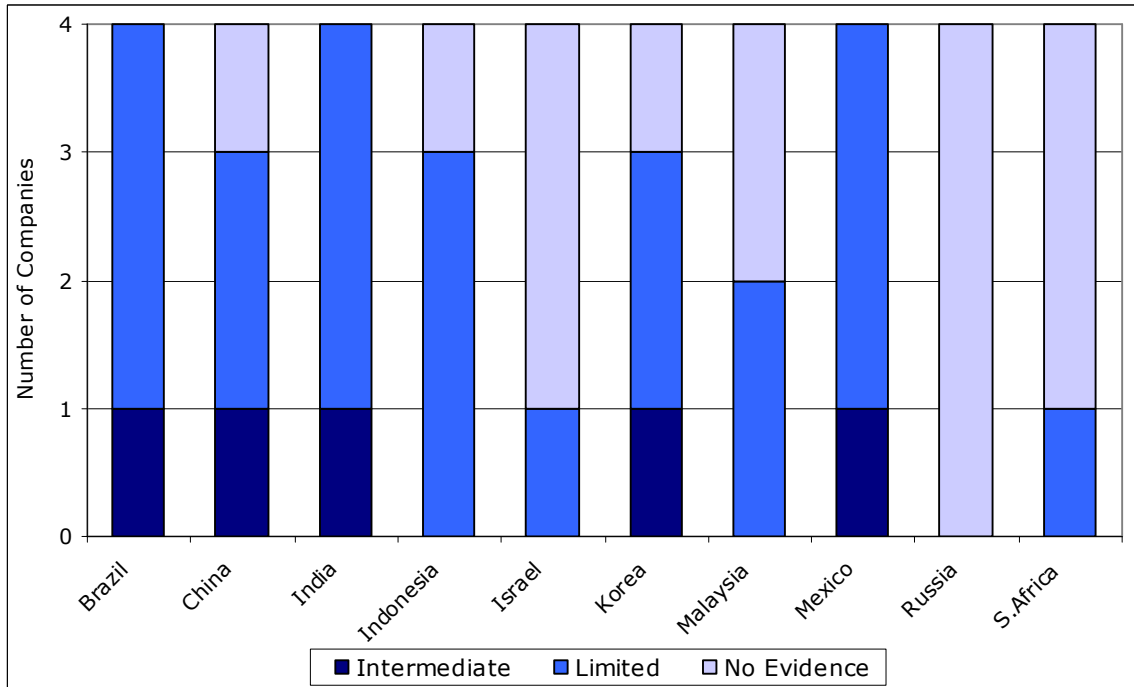
**Figure 31. Countering bribery overall**  
Companies assessed for bribery = 40



**Figure 32. Countering bribery policy by country**



**Figure 33. Countering bribery systems by country**



#### 4. Comparisons with developed markets

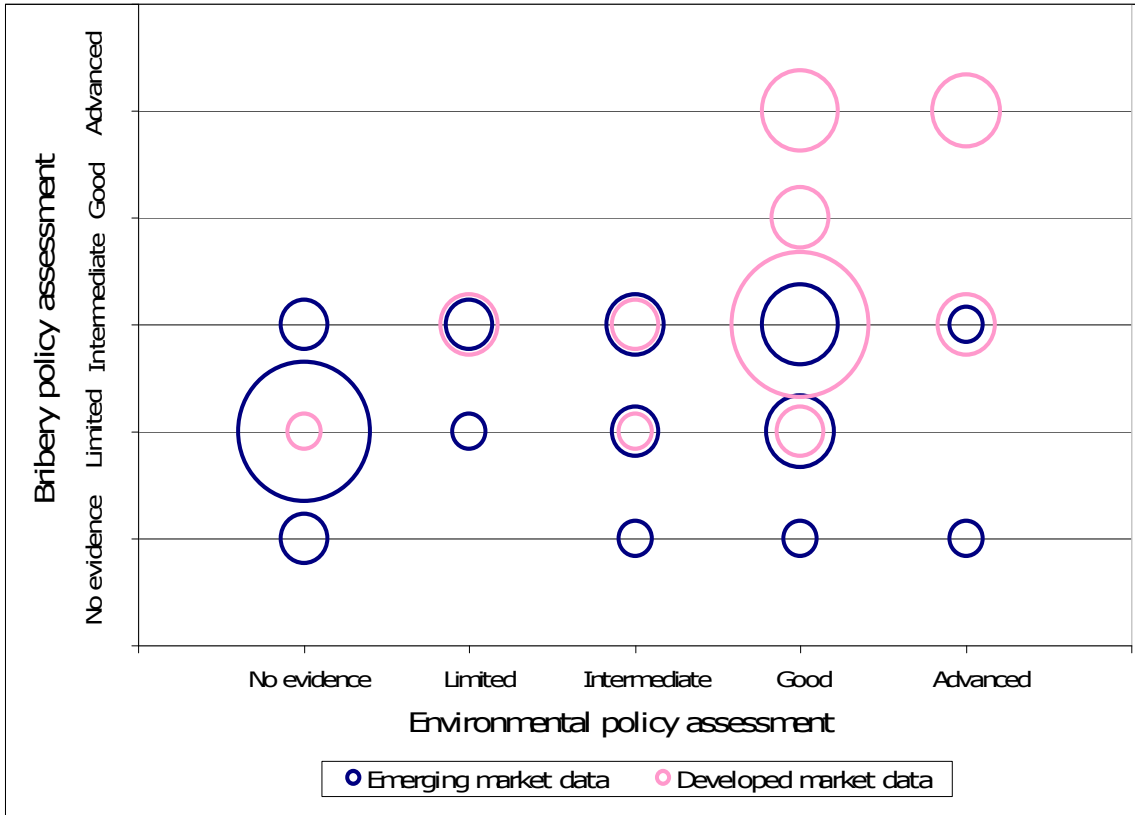
This research has shown that large emerging market companies have better environmental policies and systems compared to policies and systems pertaining to social issues. This issue is explored further in Figures 34 and 35 below, using bribery as a proxy for social issues. These figures show data from the 40 emerging markets companies assessed previously and compare it with data from the 40 largest developed market companies by market capitalization in corresponding sectors. The size of the bubbles is analogous to the number of data points per assessment. The numbers on the axes correspond to EIRIS assessment grades with 1 representing the lowest assessment grade of 'No Evidence' and 5 representing the highest grade of 'Advanced'.

Figure 34 compares emerging and developed market companies assessments for environmental and bribery policies. It shows a polarization of leaders and laggards, especially among developed market company policies. While developed market companies have higher assessments especially for their policies on bribery, emerging market companies' environmental policies range in quality but some companies make the highest grades.

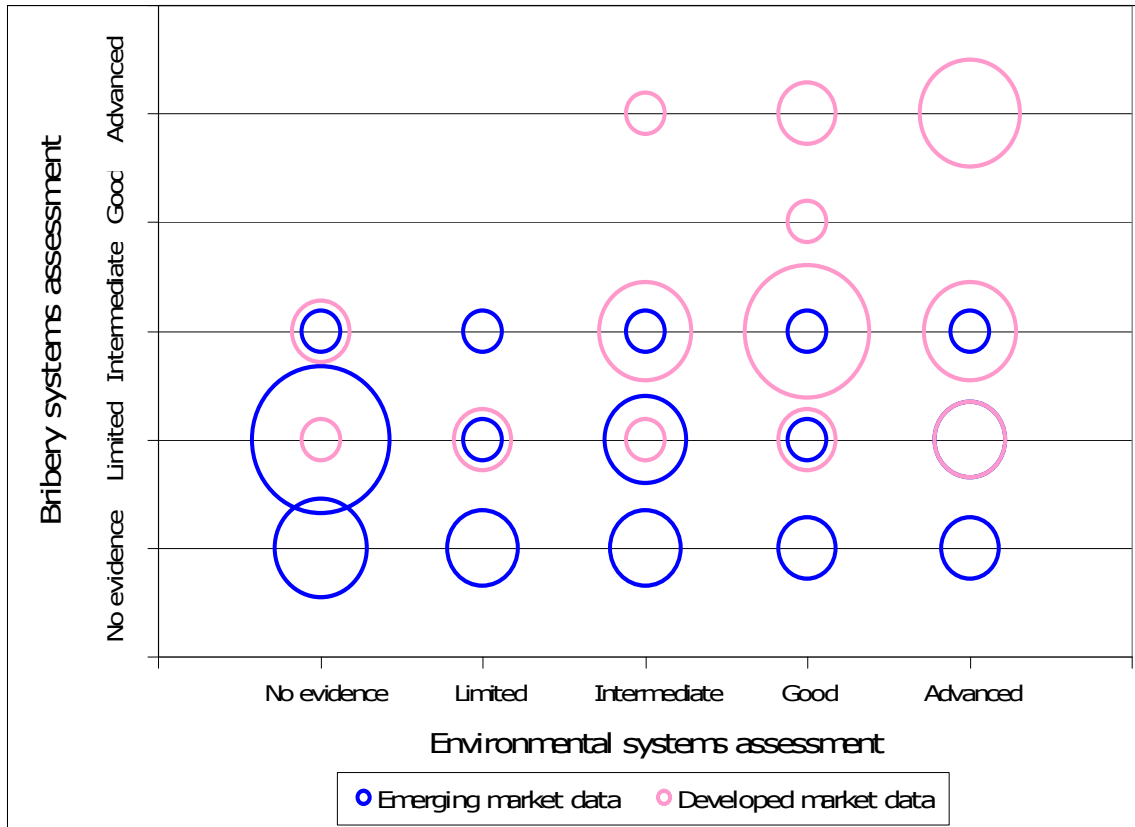
This pattern is repeated in Figure 35, although the assessment grades of environmental and bribery systems are more evenly spread among developed market companies. It is interesting to note that while emerging market companies still score relatively poorly on the social criteria of bribery systems compared to their developed peers, many of those companies score much better in their environmental systems assessments.

Anti-corruption initiatives by companies are seen as a fairly new issue compared with environmental initiatives, many of which have been around for longer and are more established. It is possible that large emerging market companies just need time to catch up in dealing with social issues as they seem to have done with environmental issues.

**Figure 34. A bubble chart comparison of environmental and bribery policies in large emerging market and developed market companies**



**Figure 35. A bubble chart comparison of environmental and bribery systems in large emerging market and developed market companies**



## 5. Conclusions

The study's small sample size and the focus on the largest companies and their propensity to disclose corporate responsibility information means that caution must be used when interpreting and extrapolating the data. Nevertheless, a number of interesting trends emerged:

- (a) Companies scored much better in environmental areas than in social or governance areas, with some reaching grades in environmental performance and systems on a par with developed country environmental leaders.
- (b) Companies in higher impact sectors, including those in the resources sectors where risks are typically greater, performed relatively well on issues such as health and safety and environment.
- (c) Public disclosure of key governance issues was high, including director remuneration (33 out of 40 companies) and the separation of the roles of chair and CEO (28 out of 40 companies).
- (d) The South African and Brazilian companies studied stood out overall as consistently having the highest assessments among the companies sampled. These countries also developed some of the first responsible investment indices in emerging markets, indicating the positive role that investors can play.

However, EIRIS' analysis indicates that the large South African and Brazilian companies sampled had adopted higher levels of corporate responsibility than their peers in other emerging market countries, despite the inclusion of lower impact companies in the sample. This may be a function of domestic initiatives to improve corporate responsibility and responsible investing. However, the majority of companies in the study have shown evidence of addressing at least some ESG issues in their public disclosures.

South Africa appears to be ahead of other emerging markets in disclosing corporate responsibility activities which seems to reflect the impact of the King Reports in the country<sup>7</sup>. The codes created in the report require the annual use of the Global Reporting Initiative (GRI) guidelines for disclosing social and environmental performance for companies listed on the Johannesburg Stock Exchange (JSE) as well as addressing core corporate governance issues. EIRIS is currently research provider to the JSE for their SRI index. There is also evidence of domestic investor demand for responsible investment products. In 2007, a survey of large South African financial institutions showed that approximately 11% of their USD 300bn of assets was managed with some sort of responsible investment strategy<sup>8</sup>. The JSE also has a responsible investment index<sup>9</sup>.

The four Brazilian companies studied also scored highly against EIRIS' criteria and similarly, there seems to be a strong background of domestic responsible investment. In 2004, the Brazilian Pension Fund Association launched a set of guidelines on socially responsible investing (SRI), covering issues such as improving environmental care, labor standards and corporate transparency in CSR to encourage pension funds to take these into account when considering investments. The Bovespa (Sao Paulo Stock exchange) also has a local sustainability index which tracks the corporate governance, environmental and social performance of companies as well as their economic and financial performance.

Additionally, high profile funds from both South Africa and Brazil such as the South African Government Employees Pension Fund and PREVI have signed onto the UN Principles for Responsible Investment (UN PRI), joining over 50 other signatories from Emerging Markets totaling USD 250bn in assets under management.

In emerging markets there are great differences between regions, all partially due to differences in cultural mores, political systems, geological resources, etc. Leading Brazilian and South African companies often seem to have more in common with each other than they do with companies in neighboring countries. There also appears to be a substantial gap between companies doing a great deal (often at a similar level to their developed country peers) and those doing little or nothing. As one starts to look beyond the very largest companies, corporate responsibility in emerging markets is far less common. However, the role of local civil society and

---

<sup>7</sup> Institute of Directors – South Africa. King Report on Corporate Governance for South Africa – 2002 (King II Report) <http://www.iodsa.co.za/king.asp>

<sup>8</sup> The State of Responsible Investment in South Africa. [http://www.unisa.ac.za/contents/colleges/col\\_econ\\_man\\_science/ccs/docs/State%20of%20responsible%20Investment%20in%20South%20Africa.pdf](http://www.unisa.ac.za/contents/colleges/col_econ_man_science/ccs/docs/State%20of%20responsible%20Investment%20in%20South%20Africa.pdf)

<sup>9</sup> The JSE SRI index is compiled based on data provided by EIRIS.

investors is likely to have a growing impact on the development of corporate responsibility going forward.

There also lies the possibility that in countries outside of the study, actual corporate responsibility-orientated activities may be greater than their public disclosure. It is difficult to assess whether the decision not to publicly disclose corporate responsibility information reflects formal corporate policies toward disclosure or simply a judgment by management that these issues do not pose material risks for the company. In addition, the diversity of emerging markets extends to the attitudes of companies in these countries towards corporate responsibility. Regionally, CSR approaches may tend to reflect the local culture and what is important among stakeholders in their own country rather than wider norms and values and so might not be picked up by our research.

It was also interesting to note that the companies scored much better in environmental areas than in social or governance areas, with some reaching grades in environmental performance and systems typically seen among developed country environmental leaders. As companies' environmental policies and systems were superior to their reporting disclosure across the board, this may indicate an ongoing evolution of company responses to the issues. Although it is encouraging that environmental issues are catching the attention of company management and investors, it is important that the many material issues in the social and governance domains are also considered. Effective anti-corruption programs not only mitigate risk but can also enhance corporate reputation and establish credibility. Links have been made between corporate governance practices and share performance which indicate the good corporate governance is positively viewed by investors. PRI signatories and governments should be aware of emerging market shortcomings in these areas and try to work to strengthen these capabilities.

The pressure on emerging market companies to improve their climate change response and disclosure seems destined to rise as many fast growing large countries such as China and India start playing a role in future dialogue about climate change policies. Another driver for emerging market companies may be their growing orientation towards global markets as the lack of a domestic regulatory framework does not insulate a company from risk, so competition may drive those emerging market companies looking towards new, developed markets. In our sample, the 13 companies which had some sort of climate change policy response or disclosure are significant. Most of the companies do not have the benefit of government policy guidance or carbon trading markets, which would create transparent price incentives for action and, instead, are being driven by other pressures such as customers, competitors, investors or regulators from other countries. In Asia for example, the influence of developed country multinationals on companies in their supply chain is often very pronounced and many of these companies are rapidly improving their environmental and labor records<sup>10</sup>.

Domestic regulation is likely to increase as a driver for improved performance in the future. China has introduced new laws on water pollution which are directed at irresponsible company executives<sup>11</sup> and new labor laws which give more rights to

---

<sup>10</sup> The development of CSR in Asia, 1 September 2008, <http://www.asria.org/news/press/1220240367>

<sup>11</sup> Tougher Law to curb water pollution, 1 March 2008, [http://www.syntao.com/E\\_Page\\_Show.asp?Page\\_ID=6858](http://www.syntao.com/E_Page_Show.asp?Page_ID=6858)

workers<sup>12</sup>. China's State Environmental Protection Association (SEPA) is also tightening the rules on the listing of companies involved in high polluting industries on the Shanghai share index. The new rules will see SEPA working with the China Securities Regulatory Commission to decide if a company with a poor environmental record should be allowed to list on the exchange<sup>13</sup>.

SRI initiatives frequently play a part in encouraging the development of CSR and SRI at a country level. A range of additional initiatives in emerging market countries are listed below:

- an Israeli SRI index, developed in conjunction with the Tel Aviv Stock Exchange (TASE)<sup>14</sup>,
- a Malaysian SRI index<sup>15</sup>,
- an Indian SRI fund<sup>16</sup>
- developments aimed at developing SRI capability at the Indonesian and Thai stock exchanges<sup>17,18</sup>
- in South Korea, 34 SRI-type retail funds were launched between 2001 and 2008, three of which were launched in 2007 and 2008<sup>19</sup>,
- the award of an ESR (socially responsible enterprise) Seal to companies operating in Mexico that are exemplary in their corporate responsibility<sup>20</sup>,
- the Russian Union of Industrialists and Entrepreneurs, or RSPP, a leading big business lobby group, developed and adopted the Social Charter outlining principles for responsible business practices<sup>21</sup>,
- In 2007, the Indonesian Corporation Bill made corporate responsibility mandatory for companies operating in natural resources, with sanctions to be imposed on non-compliant firms<sup>22</sup>.

Failure to apply corporate responsibility practices poses tangible risks and missed opportunities for emerging markets in terms of attracting investment. This study

<sup>12</sup> Fair Labor Association, 15 January 2008, <http://flaglobalaction.blogspot.com/2008/01/assessing-impact-of-new-china-labor.html>

<sup>13</sup> China to smoke out worst polluters, 23 August 2007, <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/08/23/cnchina123.xml>

<sup>14</sup> Maala Index <http://www.jpost.com/servlet/Satellite?cid=1226404772569&pagename=JPost%2FJPArticle%2FShoFull>

<sup>15</sup> Malaysian SRI Index <http://www.sri-asia.com/products/sri-index-my.html>

<sup>17</sup> Indonesian Stock Exchange meeting with UNPRI [http://www.unpri.org/files/PRI%20press%20release%20Jakarta\\_final.pdf](http://www.unpri.org/files/PRI%20press%20release%20Jakarta_final.pdf)

<sup>18</sup> Thai SRI development roadmap meeting <http://www.changeofusion.org/node/28>

<sup>19</sup> Korean retail SRI funds [http://www.asria.org/portal/SRI\\_Fund/Korea](http://www.asria.org/portal/SRI_Fund/Korea)

<sup>20</sup> ESR Seal in Mexico [http://goliath.ecnext.com/coms2/gi\\_0199-5401470/Corporate-social-responsibility-in-large.html](http://goliath.ecnext.com/coms2/gi_0199-5401470/Corporate-social-responsibility-in-large.html)

<sup>21</sup> From Russia with Love [http://viewswire.eiu.com/report\\_dl.asp?mode=fi&fi=1854053570.PDF&rf=0](http://viewswire.eiu.com/report_dl.asp?mode=fi&fi=1854053570.PDF&rf=0)

<sup>22</sup> Indonesian CSR legislation <http://www.adbi.org/conf-seminar-papers/2007/10/24/2377.csr/>

shows that many of the top companies in emerging markets risk failing to meet the ESG tests of international investors. On the other hand, those emerging market companies that devote resources to CSR activities may well gain potential financial benefits from being seen as leaders among their peers. Applying the unique qualities of emerging markets' investments to responsible investment provides analysts with a new set of challenges regarding screening and debate over what counts as 'ethical' behavior within an emerging market. But it can also provide investors with greater opportunities for engagement and improvement of ESG performance within companies, as well as the chance of the dramatic returns often seen in emerging market funds.

This study's findings indicate that the majority of the 40 companies in the study have shown evidence of addressing at least some ESG issues in their public disclosures and while there is still considerable diversity in performance, this can present opportunities as well as risks for investors in emerging markets.

## **6. Recommendations for Investors**

### **6.1 Recommendation 1 – Engaging to improve company performance**

A substantial proportion of companies have failed to mitigate their ESG risks, providing plenty of scope for constructive engagement to improve corporate responsibility practises in emerging markets. This entails transparent, regular contact with companies and continuous follow up on their corporate responsibility actions. Good practice examples exist which can be used to demonstrate to under-performing companies, particularly sector laggards, how to adopt a stronger management response. Such an engagement approach should lead companies towards better sustainable practices and will also favor the development of additional financial and extra-financial research. Engagement with other key stakeholders such as governments or affected communities may enable investors to better identify the issues and achieve improvements in company performance. Investors could also be more vocal in requiring minimum ESG disclosure standards from emerging market legislators and exchanges. Actions such as the UN Global Compact's, which removed 394 of the 4000+ corporate participants from its online database in January 2008 show that initiatives are underway to convince companies of the merits of corporate responsibility. Most of the de-listed companies were based in emerging markets<sup>23</sup>.

However, great care must be taken when engaging in emerging markets to be mindful of cultural and idiomatic differences. Relationship building with senior management tends to be more fruitful than more standard Western approaches of shareholder resolutions. Terms such as 'human rights' can often be met with misunderstanding or anger by corporate managers, especially in Asian countries, so the choice of language and terminology is also key to company engagement.

---

<sup>23</sup> Press Release 28 January 2008

[http://www.unglobalcompact.org/newsandevents/news\\_archives/2008\\_01\\_28.html](http://www.unglobalcompact.org/newsandevents/news_archives/2008_01_28.html)

## **6.2 Recommendation 2 – Seeking better corporate disclosure**

Reporting on the effectiveness of corporate responsibility measures as well as systems to implement corporate responsibility policies lag behind company policy disclosure on all issues researched for this paper. Information exists for emerging market investors to incorporate ESG issues into their investment decisions. However if investors are to understand the risks that may be involved and the steps that companies are taking to mitigate those risks, then disclosure levels need to improve. There is significant scope for improvements in both the levels of disclosure and the quality and consistency of information provided. Investors need to make clear to emerging market companies that ESG data is increasingly important to them and that improved levels of disclosure helps them understand corporate risk exposure and performance on these issues.

A number of approaches may be taken:

- Engagement work can be linked with governance work or around annual general meetings (AGMs), or the issue may be tackled by sector or country.
- Investors may want to promote reporting initiatives such as the Global Reporting Initiative (GRI) and the Carbon Disclosure Project (CDP)
- Signing up to the Emerging Markets Disclosure Project (EMDP) to improve reporting and becoming involved in the final stage of the project involving targeted outreach and engagement.

## 7. Appendices

### 7.1 Appendix I: About EIRIS and its partner network

EIRIS is the leading global provider of independent research into the social, environmental, governance and ethical performance of companies. With over 25 years experience conducting research on responsible investment issues, EIRIS research provides research and responsible investment advisory services to more than 100 investment institutions globally. EIRIS has recently launched products to assist PRI signatories on implementing the Principles and for asset owners and managers to benchmark the carbon impact of their portfolio. For further details on the PRI and Climate change toolkits please see [www.eiris.org](http://www.eiris.org)

EIRIS works with a number of research partners globally. The following research partners contributed to the study:

#### *Fundacion Ecologia y Desarrollo (EcoDes) (Spain)*

An established Spanish non governmental organization (NGO) in the field of environment and development, EcoDes branched out into ethical investment research in 1997. The research function was originally established to supply data to an environmental fund set up by EcoDes, but has now expanded to provide data on Spanish, Portuguese and Latin American companies to EIRIS. They have matched their strong environmental research skills with an expansion into social and economic research. [www.ecodes.org](http://www.ecodes.org)

#### *Greeneye (Israel)*

Greeneye is the primary provider of independent research into the social, environmental and ethical performance of companies in Israel. Greeneye advises the financial sector on assimilating environmentally considerate thinking and incorporating environmental criteria into decision making on investment, finance and insurance issues. Greeneye is EIRIS' research partner in Israel and is the environmental advisor to the Maala CSR Tel Aviv Stock Exchange Index. [www.greeneye.co.il](http://www.greeneye.co.il)

#### *KOCSR (Korea CSR Research Services) (Korea)*

KOCSR is a provider of corporate responsibility research on Korean companies and is partially owned by CCSR. KOCSR researches Korean companies for EIRIS. [www.kocsr.com](http://www.kocsr.com)

## 7.2 Appendix II: List of companies in the study

<b>Company</b>	<b>Industry</b>	<b>Country</b>
PETROBRAS	Resources	Brazil
VALE DO RIO DOCE	Resources	Brazil
BANCO BRADESCO	Financials	Brazil
BANCO ITAU HLDG FIN.	Financials	Brazil
CHINA MOBILE	Technology	China
ICBC	Financials	China
CHINA LIFE INSURANCE	Financials	China
PETROCHINA CO	Resources	China
RELIANCE INDUSTRIES	Resources	India
ICICI BANK	Financials	India
INFOSYS TECHNOLOGIES	Technology	India
HOUSING DEV FINANCE CORP	Financials	India
BUMI RESOURCES	Resources	Indonesia
TELEKOMUNIKASI INDONESIA	Technology	Indonesia
ASTRA INTERNATIONAL	Consumer	Indonesia
BANK CENTRAL ASIA	Financials	Indonesia
TEVA PHARMACEUTICAL	Healthcare	Israel
ISRAEL CHEMICALS	Resources	Israel
BANK HAPOALIM	Financials	Israel
BANK LEUMI	Financials	Israel
SAMSUNG ELECTRONICS	Technology	South Korea
POSCO	Resources	South Korea
KOOKMIN BANK	Financials	South Korea
SHINHAN FINANCIAL GROUP	Financials	South Korea
BUMIPUTRA COMMERCE HOLDINGS	Financials	Malaysia
IOI CORP	Consumer	Malaysia
SIME DARBY	Industrial	Malaysia
MALAYAN BANKING	Financial	Malaysia
AMERICA MOVIL	Technology	Mexico
CEMEX	Industrial	Mexico
TELEFONOS DE MEXICO	Technology	Mexico
WALMART DE MEXICO	Consumer	Mexico
GAZPROM	Resources	Russia
LUKOIL HOLDING	Resources	Russia
SBERBANK	Financials	Russia
NORILSK NICKEL	Resources	Russia
SASOL	Resources	South Africa
MTN GROUP	Technology	South Africa
IMPALA PLATINUM	Resources	South Africa
STANDARD BANK GROUP	Financials	South Africa

### 7.3 Appendix III: Sector summary

The following table summarizes the sectors which made up the industrial groupings. These are based on the ICB classifications but only those sectors which had analyzed companies were included in the industry groupings.

<b>Industry</b>	<b>Sectors</b>
Consumer	Automobiles & Parts, Food Producers, Food & Drug Retailers
Financials	Banks, Life Insurance, General Financial
Health	Pharmaceuticals & Biotechnology
Industrial	General Industrials, Construction & Materials
Resources	Oil & Gas Producers, Industrial Metals, Chemicals
Technology	Mobile Telecommunications, Software & Computer Services, Fixed Line Telecommunications