

Broadening horizons for responsible investment: *an analysis of 50 major emerging market companies*

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Executive summary

Although investment in emerging markets has traditionally been seen as risky, a review of the opportunities for responsible investment in emerging markets reveals possibilities for diversification and risk management for

investors as well as wider potential gains for sustainability.

EIRIS conducted a study of 50 major emerging market companies to assess what opportunities exist for responsible investors. It found that the overwhelming majority of companies in the study have shown evidence of addressing at least some environmental, social and governance issues in their public disclosures, with some significantly so.

EIRIS research at a country level reveals:

- South Africa appears notably ahead of other emerging markets in disclosing corporate social responsibility (CSR) activities.
- some countries such as China have yet to produce strong evidence in this area.

- other countries may show positive signs in some spheres but lag behind in others. For instance, Taiwanese companies showed poor governance performance, yet a number of them showed evidence of addressing the environment.

This latter point suggests that some companies might be favourable for some investment approaches, but not for others.

A comparative exercise between emerging and developed market companies using a 'best in class' approach was undertaken. The comparison indicated that:

- developed market companies in the oil & gas producers, telecommunications and chemicals sectors tend to score better, i.e. their level of CSR activity and its disclosure is greater than in the emerging markets.
- even amongst the oil & gas producers and telecommunications companies, there are some emerging market companies that compare favourably with large developed market companies.
- the banking sector showed significantly less distinction between the developed and emerging market companies.

The results, however, raise the question of whether investors should set different standards for selecting emerging market companies than those for the developed world.

EIRIS data was also used to investigate the suitability of different socially

responsible investment styles. The research showed that:

- screening on traditional issues such as alcohol, gambling and tobacco might have limited impact on the selection of companies. This might be useful to investors in not enforcing significant restrictions on their investable universe and may encourage them to see emerging markets as a source of portfolio diversification.
- However, screening for allegations of breaches of international norms and conventions appears to identify more companies than elsewhere so that such a screening filter would likely have a greater impact on the investable universe.
- other approaches reflecting either a governance or environmental concern, or the adoption of a 'best in class' policy, all revealed possibilities for distinguishing between companies that could be favoured or avoided.
- none of these approaches are mutually exclusive. It would be quite possible, for instance, to combine a 'best in class' approach with a screening overlay.
- the study also identified a number of possible opportunities for engagement with companies, both in terms of unmanaged risks that investors might want to address, and in terms of better practice amongst other emerging markets companies that show what is possible

Overall the study confirms that a responsible investment approach to emerging markets can unveil diversity in company performance that may need to be addressed, provide potential choices among companies and offer other ways in which responsible investors can extend their horizons.

1. Background

At one time the bulk of the focus on what we today term 'emerging markets' was on their subordinate or peripheral role to western economies to which they principally supplied raw materials or semi-finished goods. In the 1960s this was seen by some as the 'development of underdevelopment' or dependency theory as explained, for example, by Andre Gunder Frank in the context of Latin America.¹ In the following decades, with the end of the Cold War and the drive of globalisation, this 'periphery' has to varying degrees been drawn more closely into the 'centre' of the global economic system.

For instance, by the 1980s the success of the 'tiger' economies of Asia, in particular, had attracted a lot of attention. Initially these referred to Hong Kong, South Korea, Taiwan and Singapore (sometimes known as the East Asian 'tigers') who experienced rapid industrialisation and high growth rates arising from an export-driven approach to economic development from the 1960s to the 1990s. These were joined in the 1980s by Indonesia, Malaysia, the Philippines and Thailand (sometimes known as the South East Asian 'tigers') who followed a similar path of developing their own industrial capacities and infrastructure assisted by inward flows of investment. This was dramatically halted by the Asian financial crisis of 1997, when capital took flight, stock markets plummeted and investors became extremely

nervous.² The following year Russia added to international investment nerves when it devalued the rouble, struggled to meet its domestic and international obligations and consequently declared a moratorium on its debt.³

More recently the phenomenon of globalisation has produced two diverging views. Some see the phenomenon as a renewed thrust by western based corporations to assert economic dominance leading to negative impacts on so called emerging markets. Conversely, others see globalisation as providing a boost to a number of 'developing' countries such as India and China. Certainly the pattern unfolding in the wake of globalisation is far from even. Its putative benefits may be evident in Bangalore or Shanghai, but much of sub-Saharan Africa remains comparatively untouched, as indeed are substantial areas of India and China themselves.

Some emerging markets are becoming increasingly powerful economically and particular attention has been given to the so called 'BRIC' countries of Brazil, Russia, India and China.⁴ Other markets have developed to the extent that FTSE may add South Korea and Taiwan to the countries covered by the FTSE All World Developed Index in 2007.⁵ Given the uneven pace of development, it would be wrong to regard emerging markets as a block, when there is in fact a great diversity amongst them.⁶ This diversity also extends to the attitudes of companies in these countries towards corporate social responsibility (CSR)⁷. In Asia, for instance, CSR approaches may tend to reflect the local culture and what is important amongst stakeholders in their own country rather than wider norms and values.⁸

These recent developments and the onset of an increasingly global financial system have led a number of commentators and investment analysts to consider the attractiveness of investments in companies from these emerging market countries.

Attitudes to investing in emerging markets

Until the last few years, the conventional view towards investing in emerging markets was that sustainability considerations too often appeared subordinate to the quest for economic growth. Emerging markets were seen as highly risky and volatile through, for instance, being prone to currency crises or political uncertainties.

More recently there has been an awakening to both the potential rewards and benefits of investing in those countries and their companies. Emerging markets are now seen by many in the investment community as a place where good rewards can be earned. For instance one professional has commented: 'They [emerging markets] are the engine of the global economy and where premium growth is to be had.'⁹ Others feel there is unlocked value to be extracted,¹⁰ or that a number of companies, including the biggest, are undervalued.¹¹

For the investor, the question is whether these economic growth rates and investment returns will be sustained over the medium to long term. The 2006 downturns or 'market corrections' in the stock markets again illuminated this concern, when emerging markets were among the hardest hit.¹² Yet even if confidence is maintained, questions exist about the wider costs of such investments.

Risks and opportunities of investing in emerging markets

The rapid growth associated with industrialisation in a number of these countries has fuelled the global demand for natural resources and increased the pressures on the 'carrying capacity' of both local and global ecosystems. For instance, the Association for Sustainable & Responsible Investment in Asia (ASrIA) has observed that globalisation and related market developments are amplifying environmental, social and governance (ESG) trends that are strongly linked to the economic growth of China and India.¹³

Populations in these affected countries are becoming more aware of the issues. In some cases this engenders the development of more active civil societies and NGOs. In other cases, it can lead to the election of more 'nationalist' governments such as in Latin America which seek to ensure greater benefits will reach local people. In 2006 the Bolivian government controversially sought to nationalise the oil and natural gas industry.¹⁴ This contrasts with other emerging market countries such as India and China welcoming inward investment.

The pressures on sustainability and fluctuating political contexts emphasise the challenges as well as the great opportunities to be faced. Financial institutions may find they have considerable influence. If this is harnessed fully, these institutions can also play a significant role in driving improvements in environmental and social practices, and therefore advance the basis for sustainability in its fullest sense. The potential to increase and direct flows of capital to socially and environmentally beneficial business activities provides the possibility of addressing issues of sustainability in

tandem with facilitating economic development.

There are signs of the investment industry responding to the challenges. In late 2004, the United Nations Environment Programme Finance Initiative (UNEP FI) launched an Emerging Market Responsible Investment Project to determine how capital markets and policy makers can act to overcome the principal barriers to enhance stable and sustainable capital markets in emerging markets and create international and domestic framework conditions that enable the integration of environmental, social and governance (ESG) concerns into investment.¹⁵ The UN Principles for Responsible Investment (launched in April 2006) has established a working group to look into issues related to responsible investment in emerging market equities.¹⁶

Other organisations are now recognising a role in facilitating and promoting sustainable investment in emerging markets.¹⁷ However, if such efforts are seen as being imposed from the outside, the danger is that it would reinforce a view (particularly in the developing world) that a focus upon ESG performance is simply another sort of protectionism. It could be perceived as providing further reasons for rich countries to exclude the goods or services offered by poorer countries on the grounds that their ESG performance is inadequate.

The International Finance Corporation (IFC), the private sector arm of the World Bank, believes that SRI makes sense in emerging markets for many of the same reasons as in developed markets. 'Responsible companies are better managed, have access to new markets, face fewer risks, have better branding and reputations and have more loyal and better-trained

workforces.'¹⁸ The IFC argues that any perceived limitations to SRI in emerging markets should not be construed as evidence of a business case against it.

A SustainAbility report, *Developing Value: the Business Case for Sustainability in Emerging Markets* (2002) considered a matrix of seven sustainability factors and six financial performance measures. It found that the strongest link existed between 'environmental process improvement' and 'cost savings and productivity'. The matrix is reproduced in Appendix 1.

Others have identified a strong link between corporate governance practices and share performance.¹⁹ Furthermore, Jamie Allen, Secretary General of the Asian Corporate Governance Association has stated that if investors ignore corporate governance issues during boom times, they may suffer severely during market downturns. 'The shares of well-governed companies tend to perform better during recessions than the market as a whole.'²⁰

SRI investment approaches

If commentators and professionals are correct in their assessment that SRI can make a positive contribution to enhancing sustainability in emerging markets countries, then the extent of existing practice does not appear to reflect this. Why this should be is unclear. Perhaps a critical threshold of awareness of the potential benefits needs to be reached before socially responsible investment becomes the norm or accepted practice for emerging markets, rather than being noteworthy or exceptional.

Some investors are trying to respond to the challenges. No SRI asset owners are currently known to have their own

in-house specialists. Instead, if they are looking to pursue an emerging markets strategy, they externalise the fund management for this 'specialist' area. Among its clients, EIRIS has observed various starting points in considering external managers when looking to implement an SRI approach for emerging markets, including:

- seeking specialists in particular regions such as east Asia
- focusing on one country at a time and thereby building up a knowledge of that market
- looking at opportunities for particular industries across the world, such as mining where the demand for metals from China is raising the prospects for these companies.
- focusing on the 'advanced' emerging countries

More widely, a number of other approaches have been evident for investing in emerging markets, including:

- selecting some emerging market companies to comprise a small part of SRI funds managed in the developed world
- looking at companies on a case by case basis, which allow variations in countries, companies, drivers and other circumstances to be taken into account.
- screening at a country level. In 2002 the Californian Public Employees' Retirement System (CalPERS) controversially banned investment in some emerging market countries on non-financial grounds ranging from political stability to labour standards. Indonesia, Malaysia and Thailand were the first countries to be excluded from its list of 'permissible' countries. CalPERS

received a chorus of criticism for screening at a country level, rather than company level. The original three countries have now found favour, but CalPERS still maintains its general policy and in 2006 will not permit public equity investments in China, Colombia, Egypt, Morocco, Pakistan, Russia, and Venezuela.²¹

- religious investing and a focus on microfinance has been a key feature in advancing SRI in some Asian emerging markets.²²

General trends and size of SRI in emerging markets

The IFC is the world's largest investor in emerging market equities. One hundred percent of its USD 1.1bn investment activity is directed at developing countries spread among 30 managers operating approximately 120 funds. Its investment strategy emphasises corporate governance, social and environmental factors and uses both negative and positive screening criteria.²³

Beyond this the amount invested in emerging markets is currently very small. The IFC calculated that only 0.1% of SRI funds worldwide are invested in emerging market assets. There are some funds, however, who give emerging markets a higher profile. Aberdeen Ethical World Fund has approximately 20% of its portfolio invested in Asia and Latin America.²⁴ In the US, Calvert's World Values International Equity Fund has some holdings in emerging market companies.²⁵ On 31 August 2005, the Dow Jones Sustainability Index (World) (DJSI): contained 11 emerging market country companies from Brazil, Malaysia, South Africa, South Korea, Taiwan and Thailand among its constituents.²⁶

In 2003 there were 38 developed world and 17 emerging market (predominantly South African) SRI retail mutual funds holding emerging market assets with South Africa and Asia being the largest recipients of this investment.²⁷ Since then expansion appears to be continuing. South Africa was reported as having 21 SRI funds with USD 1.6bn under management.²⁸ The ABN Amro Brazilian SRI Fund was the first in Latin America when launched in 2001 and Brazil now has at least three SRI equity funds with USD 31.5m under management. In November 2004 the Brazilian Pension Fund Association launched a set of guidelines on SRI covering 11 issues such as improving environmental care, labour standards and transparency in CSR and for pension funds to take these into account when considering investments.²⁹ In May 2006 the Bank of China attracted headlines when it proclaimed the launch of China's first SRI fund, the BOC Sustainable Growth Equity Fund.³⁰ In April 2006, 3 asset owners including the South African Government Employees Pension Fund and the Thai Government Pension Fund, and two South African investment managers signed up to the newly launched UN Principles for Responsible Investment.³¹

In addition, the development of SRI in emerging market countries has been symbolised by the launch of SRI indices in South Africa (JSE SRI Index, May 2004³²), Israel (the Maala SRI Index, February 2005³³) and Brazil (BOVESPA Sustainability Index, December 2005³⁴).

What is hindering SRI investment in emerging markets?

Although these developments may suggest that there is a growing interest and enthusiasm for investing in

emerging markets, fund managers do not always fully appreciate what the key drivers or attitudes are in particular countries and societies towards investment and corporate social responsibility. In addition, fund managers may have insufficient knowledge of how companies in these societies are structured and governed.

There are two overriding issues. Firstly, there is a need to resist considering all emerging markets as a block with largely similar issues and trends. Secondly, any focused analysis of CSR activities and ESG risks is often hampered by limited disclosure on the part of companies or state authorities.

More specific factors commonly cited as hindering SRI investment include:

- perceived lack of consistent and widespread good corporate governance
- continuing government ownership and control such as with many large listed Asian companies that can be a critically important variable in ESG performance³⁵
- the retention of large controlling interests by families in many emerging market companies that limit the rights and influences of minority shareholders.³⁶
- even where governance, environmental or labour regulations are strong in some countries, enforcement is sometimes weak such as in India.³⁷
- doubts about the honesty of some disclosed information or its credibility. For instance, in relation to ISO14001, the reputation of those providing the certification is crucial for trusting the information disclosed.³⁸
- difficulties in engaging with companies in emerging

- markets.³⁹ Although language may be a factor in some cases, the corporate culture of many companies is not yet responsive or attuned to international investors especially relating to environmental and social issues.
- a limited number of third party organisations in these countries or regions to undertake the research required on companies.⁴⁰ The IFC is undertaking initiatives to facilitate and increase this research capacity.

The governance and management of companies is often singled out as a key issue in emerging markets.⁴¹ In Asia, concerns about the effectiveness of corporate governance reforms in Asia and the levels of disclosure have been raised.⁴² Furthermore, a recent survey found political risk, ethics and corporate governance as the key concerns among investors in the BRIC economies (Brazil, Russia, India and China).⁴³ Assessing the attitude of the management approach within companies is probably more significant than signing up to CSR-type initiatives.⁴⁴ If there is validity in the proposition that the management of SEE issues is a proxy for how well a company is run generally, then the understanding and availability of assessments of these issues is imperative.

Quality of CSR reporting

Perhaps most importantly there is a lack of data about companies through direct disclosure by the companies themselves.⁴⁵ CSR reporting varies widely. A recent KPMG report⁴⁶ indicated that whilst South Africa compares favourably with the developed world, reporting practices are often still in their infancy elsewhere in emerging markets. Outside of South

Africa, the few African CSR reports that exist are largely produced by subsidiaries of UK-based companies.

In Asia, CSR reporting has begun to take off in South Korea but is still relatively rare in India, Malaysia, Indonesia, Thailand and others. Subsidiaries of western multinationals, major suppliers to western multinationals or large companies in high impact sectors tend to be the main practitioners. In China CSR reporting has been almost non-existent. This is expected to change significantly as Chinese companies come under pressure both externally, due to its greater exposure to international markets and being a supply base for developed world companies, and internally from increasing public expectations arising from the liberalisation of the economy and state institutions.⁴⁷

In Latin America, CSR reporting tends to be restricted to the large companies, mainly concentrated in Brazil, Chile, Argentina and Mexico. Unlike Asia, reporting practice tends to be stronger for indigenous companies rather than local subsidiaries of multinationals. Russia lags even further behind, although actual CSR-orientated activities may be outstripping the reporting of them.

In Central and Eastern Europe (CEE) a recent survey of the ten largest listed companies in 11 countries found that, in general, companies provide more information on corporate governance than on environmental and social policies. In April 2006, 15 of the 110 companies surveyed had 15 English language ESG reports available on the company websites.⁴⁸

Review summary

Generally, the situation appears to be marked by nervousness, a general lack of confidence or specialised knowledge on the part of investors, offset by some scattered or pioneering initiatives by financial institutions. Despite some notable developments, there still remains a well of unfulfilled potential for institutional investors, CSR research groups and indeed companies to recognise.

A strong argument has been made that SRI could both obtain good returns for

the investor and be instrumental in encouraging the adoption of socially and environmentally beneficial business activities that will assist sustainability. However, this apparent win-win situation begs the question that, if the potential benefits of investing in emerging markets are to be realised, then what kinds of screens and investment approaches might be most effective? Research by EIRIS attempts to provide some pointers on these matters to assist investors.

2. EIRIS research study

EIRIS carried out a study of 50 companies and assessed them against a variety of investor styles to see if any trends or patterns are revealed which may provide insight into ways of approaching investment in emerging markets.

Selection of companies - methodology

Phase One

The framework for selecting the 50 companies for the study was devised as follows:

- the FTSE All Emerging Index for 31/12/2004 was used as the base universe of companies.
- any investment companies (former FTSE sector 85) were excluded
- all other companies were assessed for whether they demonstrated some evidence of

CSR commitment such as being members of the DJ Sustainability Index or the World Business Council for Sustainable Development, signatories to the UN Global Compact, produced GRI indicator-based reports or other CSR / Environmental / Sustainability type reports. A summary of this assessment is given in Figure 1.

- a universe of 100 companies was then created comprising the 30 largest companies by market capitalisation and the next 70 largest companies that demonstrated some evidence of CSR commitment.⁴⁹

This initial universe of 100 companies plus some reserves were sent the standard EIRIS environmental, social and governance surveys for 2005.



Figure 1: CSR commitment shown by emerging market companies relative to market capitalisation

Phase Two

The 100 companies were then reduced to 50 for the purposes of this study on the following basis:

- exclusion of AmBev following its takeover by InBev
- the top 30 largest companies by market capitalisation (30 companies)
- other companies that replied to the survey (3 companies)
- the next biggest companies who demonstrated some CSR commitment (17 companies)

20 of the top 30 companies by market capitalisation showed some CSR commitment. The lowest ranked company in the study by market capitalisation was 128th.

Appendix 2 lists the 50 selected companies.

Appendices 3 and 4 provide summary lists of both countries and ICB sectors contained in the FTSE All Emerging

Index that are included or not included in the study.

The research approach

The 50 chosen companies were analysed according to EIRIS global criteria. There is a view that not all CSR research criteria used for the developed world markets are applicable to emerging markets. However, this argument is counter-balanced by the knowledge that investors also need to have comparability of data. Indeed, EIRIS clients have expressly asked for our current global data. Therefore this study has used EIRIS' standard criteria, but recognises that later research will likely need to be supplemented by criteria based around local issues.

The research was largely conducted by EIRIS, with Brazilian and Mexican companies researched by its Spanish research partner, Ecodes.⁵⁰ The response to the 2005 survey was poor with only three responses received.⁵¹ The main company research was

undertaken during late 2005 and early 2006 using company annual reports, environment, sustainability or CSR reports, company websites plus news searches for alleged breaches of international conventions.⁵²

It might be argued that the research is overly reliant upon company information, and therefore is only as good as the information the company is prepared to publicly disclose. Also, with a low survey response, it could be said that it will not capture policies and initiatives that a company is simply not reporting on. However, some investors regard public reporting *per se* to be a key factor and reflective of company attitudes.

The research revealed only eight companies in the study that could be said to produce no data across a range of areas. The majority of companies provided a wide range of extra-financial data. Inevitably many companies only emphasised specific areas such as the environment in their public disclosures but others reported more widely. Accordingly, EIRIS believes that there is adequate data to conduct an analysis and establish if any trends or patterns emerge that could prove helpful to investors.

In producing the research framework, judgement was taken on other considerations.⁵³ They include the following:

- is it justifiable to weight the study towards companies with a larger market capitalisation rather than, for example, focusing on more niche or 'enlightened' companies, or to get a clearer spread between countries and sectors? It was felt desirable to focus on large market capitalisation companies as they generally tend to be of

most interest to investors. The inclusion of a number of smaller companies with evidence of CSR credentials provides some balance.

- should some sectors be ignored that are traditionally avoided by SRI investors e.g. tobacco, aerospace and defence? This issue essentially resolved itself in that no tobacco sector company showed up in the top 100 by market capitalisation, whilst only one aerospace and defence company did, but as it was not in the top 30 and had no CSR credentials, it was discounted. However, if such companies had appeared in the study universe, they would have been researched as investors who favour a strong engagement approach would want CSR data.
- should separately listed subsidiaries of 'developed world companies' be included e.g. Hindustan Lever (part of Unilever)? A view was taken to look at companies that were fully domiciled in emerging markets themselves so separately listed subsidiaries of 'developed world companies' were excluded.
- is the weighting towards the number of companies from some countries in the study justifiable as in the case of South Africa, or would it be preferable to place some limit? On balance it was decided not to impose any particular country limits on the selection approach as this reflected an underlying geographical reality about the size of companies and the relative strengths and weaknesses of CSR.
- similarly, should some sectors be more prevalent than others e.g. oil & gas and banks, or again, should some limit be placed on

this? Again the view adopted was that if this reflected reality, then they should be included.

3. Analysis & Findings

The research was analysed using EIRIS' Ethical Portfolio Manager (EPM), a software tool that enables investors to assess companies on a range of environmental, social, governance and other ethical criteria.⁵⁴ Different investment policies were set up in EPM so that the company data could be analysed against several typical investor styles.⁵⁵ These are:

- traditional screeners
- governance concerns
- environmental based
- best in class
- screening for alleged breaches of international conventions

Although EPM is capable of more complex analyses, it was decided, given the sample size, that keeping policies relatively straightforward would be more revealing. It should be noted that any scores or ratings are derived purely for this exercise and, either individually or aggregated, should not in any form be regarded as a definitive assessment or profile for any company, sector or country.

Consideration is now given to each investor style in turn.

Traditional screeners

A policy was set up in EPM to reflect typical concerns of investors who primarily wish to avoid particular activities. It covered the following areas:

- alcohol (>33% of turnover from production)
- gambling (>33% of turnover)

- tobacco (>33% of turnover from production of tobacco products)
- adult entertainment (any turnover excluding from mobile telecommunications)
- military (any products or services for whole weapons systems including nuclear)

The analysis shows that only two South Korean companies, Hyundai Motor and Samsung Electronics, were identified in relation to these criteria. These were both for military involvement. This closely reflects the fact that there are no companies from the media, travel & leisure, beverages or tobacco sectors in the study. This sector bias among the bigger companies suggests that a traditional screening approach may not prove particularly helpful to investors who wish to demonstrate that an ethical policy makes a significant difference to their investment universe. On the other hand it can maintain a potentially large universe of companies from which investors can select, allowing possibilities of running a negative-screen fund for emerging markets.

Of course these criteria could be modified. EPM contains areas and types or levels of involvement that investors can choose depending on their policy. For example, selecting military involvement at lower levels of 'significance' would identify some additional companies. Additionally, although the retail sectors are under-represented among the larger companies in the emerging market index, an inclusion of the retailing or distribution (rather than just production) of alcohol or tobacco would identify the Russian and Chinese oil & gas producers, Lukoil and China Petroleum & Chemical respectively, for retailing tobacco and alcohol at their petrol service stations, which might be

a factor for some investors.

Governance concerns

As stated earlier, discussions of investment in emerging markets often focus on the quality of corporate governance as being a key concern. Traditionally, corporate governance in emerging markets has been seen as weak, but more recently there have been initiatives to strengthen governance codes as part of improving the prospects of gaining access to capital markets.⁵⁶

To see if distinctions in governance quality can be observed, a policy was established in EPM covering the following areas:

- core governance principles
- women on the board
- code of ethics
- social, environmental and ethical (SEE) risk management

Scores were assigned to the assessment levels available under each area and totalled. This provides potential overall totals ranging from -7 (suggesting 'weak' governance) to +9 (suggesting 'good' governance). The totals were then normalised to a ten point scale where 0 is 'weak' and 10 is 'good'. A more detailed explanation of the policy and scoring system is provided in appendix 5.

Whilst some caution should be exercised in drawing conclusions, given the study's small number of companies, the analysis indicates that significant differences exist within the data. A wide range of normalised scores occur ranging from 0 to 8.8. This wide diversity of governance performance clearly suggests investors are provided

with an adequate basis for distinguishing between companies for investment. A closer look at the data indicates that countries rather than sectors might be a significant factor.

The oil & gas sector (with ten companies from eight different countries) shows a wide range of normalised scores from 0.6 to 8.8, although more lie below the midpoint of five. For the bank sector (nine companies from six countries), all but one company have a normalised score equal to, or better than the midpoint. The telecommunications sectors (seven companies from five countries) score from 1.9 to 8.1 with only two of these companies scoring higher than the midpoint.

At a country level, South Africa shows up well with all 11 companies scoring equal to, or higher than the midpoint with a range of 5.0 to 8.8, clearly reflecting the impact of the King Code in the country.⁵⁷ At the other end of the spectrum, all eight Taiwanese companies score below the midpoint in a range of 0 to 3.1. The poor showing by these companies is perhaps attributable to the advocacy rather than mandatory nature of the Taiwan Corporate Governance Best Practice Principles 2002.⁵⁸ Russia and China, where there have been concerns about the quality of the governance, also score significantly below the midpoint for their respective two companies. Another country which has had governance concerns, South Korea,⁵⁹ shows a mixed picture where the scores for its seven companies range from 1.9 to 5.6. Brazil and India also show a diverse range, as does Mexico to a lesser extent. The scores are summarised below.

Country	No. of companies	Normalised score range	Average normalised score
South Africa	11	5.0 - 8.8	6.9
Turkey	1	5.0	5.0
Malaysia	2	4.4 – 5.0	4.7
Brazil	5	1.9 – 5.6	4.5
Israel	1	4.4	4.4
India	3	1.9 – 6.9	4.0
South Korea	7	1.9 – 5.6	3.9
Mexico	3	2.5 – 4.4	3.5
Hungary	2	0.6 – 5.6	3.1
Thailand	1	3.1	3.1
Russia	2	1.3 - 3.8	2.5
Poland	2	1.9 – 2.5	2.2
China	2	0.6 – 2.5	1.6
Taiwan	8	0.0 – 3.1	1.3

Table 1: Average company governance scores by country

[N.B. Any scores or ratings are derived purely for this exercise and, either individually or aggregated, should not in any form be regarded as a definitive assessment or profile for any company, sector or country.]

Investors with strong concerns about the quality of the governance of companies can use the EIRIS research data to be selective in the countries in which they may consider investing in. However, although the scores may reflect these concerns for some countries, in light of the constraints of the sample size one should be wary of applying any kind of blanket country screen. It would be better to look at individual companies who may be better than the norm or to look at actual company data rather than a country's particular governance standard, which may be weakly enforced. Such a position could provide opportunities for an engagement approach. Those countries with diverse scores are obvious candidates for a company by company approach. Moreover, investors can probably help to improve the governance standards in

those countries that currently do not show up well with the consequence that over time more companies from such countries could be re-considered by investors.

Environmental concern

The environment is central to any consideration of sustainability. Furthermore, some investors regard company attitudes towards environmental management as a proxy for management of the company generally. The policy adopted for this exercise covered the following:

- environmental policy
- environmental management
- environmental reporting
- environmental performance

Each of the four aspects are weighted equally. The companies are divided into three 'impact' levels reflecting the potential impact they have on the environment. The assessment grades at the 'poor' end of the assessment scale were scored differently for each impact level with greater demands placed on the higher impact companies. The subsequent scoring ranges are as follows:

- high impact: +3 to -3 (23 companies)
- medium impact: +3 to -2 (18 companies)
- low impact: +3 to -1 (9 companies)

These are applied to each of the four areas above, giving potential ranges of +12 to -12 for high impact companies; +12 to -8 for medium impact companies; and +12 to -4 for low impact companies. The totals were then normalised to a ten point scale where 0 is 'poor' and 10 is 'good'. The lowest point of the scale for low impact companies is 3.3 compared to 0 for high impact companies, thus continuing to reflect the greater potential harm that the 'poorest' high impact companies could cause. A more detailed explanation of the policy and scoring system is provided in appendix 6.

Consideration of specific issues which would only be relevant to a limited number of companies such as biodiversity, chemicals of concern or sustainable timber were excluded in order to provide a consistent framework

with criteria applicable to every company in the study.

The analysis shows that only 15 companies out of 50 score higher than the midpoint, which raises investor concern about general company attitudes to the environment. South Africa, South Korea and Taiwan show a wide range of normalised scores which suggests investors could use their discretion in selecting 'environmentally aware' companies from these countries. Only one of the Brazilian companies, Petrobras, records a normalised score above the midpoint. Of countries with more than one company, China, India, Malaysia and Poland fail to have a company with a 'better than midpoint' score. India (with a reputation for environmental awareness) may be a surprising case to some, although two of its companies do attain the midpoint score (5).

From a sector perspective, only four of the ten oil & gas producers, one of the nine banks (Nedbank Group), one of the two mining companies (Impala Platinum Holdings) and none of the four chemical companies exceeded the midpoint scores, whilst only two of seven telecommunication companies (Telkom and MTN Group) achieve the midpoint score or better. Sectors that score more highly are technology hardware and equipment (in which three of the four companies in Taiwan and South Korea exceed the midpoint), and industrial metals (in which the two Taiwanese and South Korean companies again score highly). A summary of the data is provided in the table below.

	Impact rating	No of companies	Normalised score range	Average normalised score
Industrial Metals	High	3	2.1 – 7.9	6.0
Mining	High	2	4.2 – 7.5	5.9
Construction & Materials	High	1	5.8	5.8
Oil & Gas Producers	High	10	0.0 – 9.6	4.3
Automobiles & Parts	High	1	3.8	3.8
Chemicals	High	4	0.0 – 5.0	2.3
Electricity	High	1	1.7	1.7
Pharmaceuticals & Biotechnology	High	1	0.0	0.0
Medium Impact				
Electronic & Electrical Equipment	Medium	1	8.8	8.8
Leisure Goods	Medium	1	8.8	8.8
Technology Hardware & Equipment	Medium	4	1.7 - 8.8	6.6
General Industrials	Medium	1	5.0	5.0
Support Services	Medium	1	2.9	2.9
Banks	Medium	9	1.7 – 5.4	2.2
Life Insurance	Medium	1	1.7	1.7
Low Impact				
Software & Computer Services	Low	1	5.0	5.0
Fixed Line Telecommunications	Low	4	3.3 - 7.5	4.5
Mobile Telecommunications	Low	3	3.3 - 5.0	3.9
General Financial	Low	1	3.3	3.3
Summary by Impact Level				
Impact level				
Low impact companies	Low	9	3.3 – 7.5	4.2
Medium impact companies	Medium	18	1.7 – 8.8	4.1
High impact companies	High	23	0.0 – 9.6	4.0

Table 2: Average environmental scores by sector and impact level

[N.B. Any scores or ratings are derived purely for this exercise and, either individually or aggregated, should not in any form be regarded as a definitive assessment or profile for any company, sector or country.]

Due to the number of single company sectors in the study, any conclusions at sector level are limited. When the data is aggregated into the three impact levels, the average normalised scores appear closely grouped. However, it is noticeable that the greater the potential impact, the greater the scoring range produced by the research.

Overall low impact companies appear to score marginally the better of the three impact levels, but this score is 'held up' by the worst performing companies not receiving a normalised score below 3.3 in line with the scoring methodology. Generally little activity in addressing environmental issues was found among these companies, perhaps reflecting a perception among such companies that they have little impact on the environment. Nevertheless, there are some low impact companies (e.g. Telkom) that show signs of taking a proactive approach towards the environment.

The high impact companies, which generally face the greatest environmental challenges, show the greatest disparity between the poorest and best performing companies. Given that high impact companies are weighted to receive the lowest scores for 'poor' assessments, their overall average score is better than the comparative average of the three impact levels suggests. This indicates that there are a number of companies that are making strong efforts to address the issues seriously such as Sasol, POSCO and China Steel, whilst others are perhaps either complacent or have not faced sufficient social pressures to address their environmental impacts.

In short, EIRIS research indicates that investors who wish to inject an environmental bias into their investment policy can use the data to

select companies that take a positive approach towards the environment. However, the study suggests that some care needs to be taken when looking at specific countries or sectors. In addition, where companies do not achieve a score as 'good' as might be anticipated, there may be opportunities for engagement with companies.

Best in class

Another investment approach favoured by a number of investors is a 'best in class' approach. To achieve this, a more intricate policy was set up in EPM covering several areas and sub-areas. Each area had an initial scoring range as follows:

- code of ethics: +3 to -2
- environment: +12 to -12 / - 8 / - 4 (depending on impact level)
- employees (including equal opportunities, health & safety, training, trade unions and job creation): +15 to -10
- human rights: +3 to -3

In order to ensure that each of the four areas was treated equally, the scores for environment and employees were weighted by dividing each by four and five respectively as part of their contribution to the overall score.

For human rights, 29 of the companies were identified as requiring human rights policies. For the other 21 companies with no operations in countries with human rights concerns, a score of 0 was given.

The potential overall scores that combine the four areas range from +12 to -10. The totals were then normalised to a ten point scale where 0 is 'poor' and 10 is 'good'. A more detailed explanation of the policy and scoring system is provided in appendix 7. The tables below retain the initial

data and provide the normalised average scores.

The analysis identified 20 companies with an overall positive score and 30 with a negative score. This suggests that the use of EIRIS research can quite readily produce distinctions between companies and facilitate identification of companies which may be considered as leaders or good performers. The secondary question is what is the extent of bias or skew between countries or sectors?

Looking at the data by country, the salient feature is the good result of South African companies with nine of eleven companies gaining a positive score, almost half of all positively scoring companies in the study. Apart

from Turkey, which only has one company, Brazil and South Korea are the only other countries to record an overall positive average score. All the other countries have an overall negative score, although some have only one or two companies. Of those with a larger number of companies, Taiwan is particularly noteworthy with seven of its eight companies receiving negative scores. It seems quite clear that while CSR activity is well established in South Africa, it is still underdeveloped in Taiwan. Nevertheless, the one Taiwanese company that scores positively in this analytical framework, China Steel, could be regarded as a potential investment in a 'best of country' sense.

Country	No. of companies	No. of positive scoring companies	No. of negative scoring companies	Environment average score	Code of Ethics average score	Employees average score	Human Rights average score	Initial average score	Normalised average score
South Africa	11	9	2	-0.1	2.0	0.8	0.6	3.2	6
Turkey	1	1	0	-2.0	3.0	1.6	0.0	2.6	5.7
Brazil	5	3	2	-1.1	1.4	1.1	-0.2	1.2	5.1
South Korea	7	3	4	0.9	1.3	-0.5	-1.0	0.6	4.8
Hungary	2	1	1	-0.3	-0.5	-0.7	0.5	-1.0	4.1
Mexico	3	1	2	-0.5	1.3	-1.1	-0.7	-1.0	4.1
India	3	1	2	-0.6	-0.3	-0.5	-0.3	-1.8	3.7
Poland	2	0	2	-0.8	-2.0	-0.4	0.0	-3.2	3.1
Thailand	1	0	1	-1.5	1.0	-0.4	-3.0	-3.9	2.8
Russia	2	0	2	-1.1	-2.0	-1.3	0.5	-3.9	2.8
Taiwan	8	1	7	-0.5	-1.8	-1.4	-0.5	-4.2	2.7
Malaysia	2	0	2	-2.0	-0.5	-1.4	-0.5	-4.4	2.5
Israel	1	0	1	-3.0	0.0	-2.0	-1.0	-6.0	1.8
China	2	0	2	-1.9	-2.0	-1.7	-3.0	-8.6	0.7
Country average				-1.0	0.1	-0.6	-0.6	-2.2	3.6
Overall average of all companies	50	20	30	-0.6	0.3	-0.4	-0.4	-0.9	4.1

Table 3: Number of positive and negative scoring companies for each country and average country scores for each component and totals of 'best in class' approach

[N.B. Any scores or ratings are derived purely for this exercise and, either individually or aggregated, should not in any form be regarded as a definitive assessment or profile for any company, sector or country.]

From a sector perspective, with 11 of the 18 sectors in the study only containing one company, caution needs to be exercised in drawing conclusions. However, nine sectors achieve a positive score and nine a negative score, with the single company sectors splitting six in the former and five in the latter category. Among the multi-company sectors, those that show up best are mining (containing two South African companies) and banks where five of the nine companies score positively. Industrial metals also has two (POSCO and China Steel) of its

three companies achieving positive scores.

Among the negative average sector scores, both telecommunications and oil & gas producers have their better scoring companies which suggests the existence of some strong CSR leaders to interest investors. Two (Telkom and MTN Group) out of seven telecommunications companies score positively, as do three (Petrobras, Sasoland MOL) of the ten oil & gas producers.

Sector	No. of companies	No. of +ve scoring companies	No. of -ve scoring companies	Environment aver score	Code of Ethics aver score	Employ-ees aver score	Human Rights aver score	Initial aver score	Normal -ised aver score
Mining	2	2	0	0.5	2.5	1.1	1.0	5.1	6.9
Electronic & Electrical Equipment	1	1	0	2.3	2.0	1.2	-1.0	4.5	6.6
General Industrials	1	1	0	0.0	1.0	0.0	3.0	4.0	6.4
Software & Computer Services	1	1	0	0.0	3.0	-0.1	1.0	3.9	6.3
Construction & Materials	1	1	0	0.5	2.0	-1.4	1.0	2.1	5.5
Automobiles & Parts	1	1	0	-0.8	1.0	0.4	0.0	0.7	4.8
Banks	9	5	4	-1.7	1.8	0.3	0.1	0.5	4.8
Industrial Metals	3	2	1	0.6	0.7	0.6	-1.7	0.2	4.6
Support Services	1	1	0	-1.3	2.0	0.4	-1.0	0.2	4.6
Telecommunications (Fixed & Mobile)	7	2	5	-0.5	0.6	-0.2	-0.4	-0.5	4.3
Life Insurance	1	0	1	-2.0	1.0	0.0	0.0	-1.0	4.1
Leisure Goods	1	0	1	2.3	0.0	-1.8	-2.0	-1.6	3.8
Oil & Gas Producers	10	3	7	-0.4	-0.6	-0.5	-0.3	-1.8	3.6
Technology Hardware & Equipment	4	0	4	0.9	-1.0	-1.3	-0.8	-2.1	3.6
General Financial	1	0	1	-1.0	-2.0	-2.0	-1.0	-6.0	1.8
Pharmaceuticals & Biotechnology	1	0	1	-3.0	0.0	-2.0	-1.0	-6.0	1.8
Electricity	1	0	1	-2.0	-2.0	-1.4	-1.0	-6.4	1.6
Chemicals	4	0	4	-1.6	-2.0	-1.6	-1.3	-6.4	1.6
Sector average				-0.4	0.6	-0.5	-0.3	-0.6	4.3
Overall average of all companies	50	20	30	-0.6	0.3	-0.4	-0.4	-0.9	4.1

Table 4 : Number of positive and negative scoring companies for each sector and average sector scores for each component and totals of 'best in class' approach

[N.B. Any scores or ratings are derived purely for this exercise and, either individually or aggregated, should not in any form be regarded as a definitive assessment or profile for any company, sector or country.]

Although not definitive and a different set of criteria may produce some different results, the exercise clearly suggests that there is enough variation in company performance to make this a meaningful use of EIRIS data. There is sufficient evidence to encourage the investor to identify leading companies with developed CSR practices in a variety of countries and sectors. Where sectors only have negative scoring companies, investors would need to decide how to treat them e.g. would they therefore ignore whole sectors which might affect the balance of a portfolio, or seek to include the 'least worst' in a sector by requiring a minimum score to be met e.g. -3 or better. If the latter type of approach was adopted, then these negatively scoring companies could become a focus for engagement in order to raise their performance.

Alleged breaches of international conventions

The analysis covered whether any companies were alleged to have 'breached' any of the following international conventions or norms covering:

- anti-bribery principles
- anti-personnel landmines
- biodiversity
- human rights principles
- international labour standards
- greenhouse gases (Kyoto Protocol)
- ozone depleting chemicals (Montreal Protocol)

EIRIS has developed a methodology for assessing allegations against a company as either 'addressed' or 'unaddressed', depending upon the management of the company's response to the allegation.

The subsequent analysis reveals that ten companies have allegations against them, with only two of the allegations against the companies being assessed as 'addressed'. Seven of these companies are in the oil & gas producers sector with one of them (Sasol) having its allegation assessed as being 'addressed'. One company has two alleged breaches of two different conventions, and another has two alleged breaches of the same convention. The eight companies alleged to have breached conventions cover four different conventions, namely anti-bribery, biodiversity, human rights principles and international labour standards.

This suggests that there is scope for using this approach for screening or engaging with companies with perhaps a particular focus on the resources sector, especially oil & gas producers.

Comparisons with the developed world

Another perspective in analysing the data is to compare the companies in the study with their peers in the developed world. With the study only covering 50 companies, the ability to do this in a fully meaningful way is limited as some sectors have few 'representatives'. However we can look at those sectors which are well represented, namely oil & gas producers (ten companies), banks (nine), telecommunications (fixed and mobile combined) (seven) and chemicals (four). These were compared with the top ten biggest companies by market capitalisation in these sectors from the FTSE All World Developed Index at 2 January 2006.

Due to its relatively broad coverage, the 'best in class' approach used earlier in the study was adopted for this exercise. This has an overall scoring

range from +12 to -10 combining the four areas of environment, code of ethics, employees and human rights. The totals were then normalised to a ten point scale where 0 is 'poor' and 10 is 'good'.

Taking each sector in turn:

Oil and gas producers: only two emerging market companies score higher than any developed market company. The other eight emerging market companies all score below the lowest developed market oil & gas company. The average normalised score for the developed markets is 8.3, whilst that for the emerging markets is 3.6. Quite clearly the level of CSR activity and disclosure of the emerging market companies lags behind that of the developed market companies. Accordingly, investors might consider whether it is appropriate to employ the same level of requirements for the two markets or whether perhaps a more active engagement approach would be better applied towards the emerging markets companies.

Telecommunications: much the same picture emerges as for the oil & gas producers. Six developed market companies score higher than the best scoring emerging market company, whilst five of the emerging market companies score lower than any of the top ten developed market companies. The average normalised scores for the developed market and emerging markets are 7.8 and 4.2 respectively.

Chemicals: the picture seems even more stark. Even though the number of

emerging market companies is smaller than for the sectors above, none of the four have a score exceeding any company from the developed markets. Again, the level of CSR activity and disclosure of the emerging market companies appears to lag significantly behind that of the developed market companies. The average normalised score for the developed markets is 7.7, whilst that for the emerging markets is 1.6.

Banks: the picture is much more mixed with seven of the nine emerging market companies scoring better than at least two of the top ten developed market banks. The reason for this closer alignment between the two markets is not clear but it is notable that the banks of the developed world do not score on average as highly as the other three sectors in this exercise. A number of factors could be involved e.g. the extent of international operations or the influence of an international shareholder base but there may be other factors. The average normalised scores for the developed market and emerging markets are 6.5 and 5.2 respectively. The higher average for the former is due largely to the four best scoring companies being from the developed markets. Unlike the oil & gas producers sector, the emerging market bank companies could be regarded similarly by investors in terms of setting requirement levels for selecting suitable companies.

	Developed market		Emerging market	
	Average	Range	Average	Range
Oil & gas producers	8.3	6.7 - 9.8	3.6	0.5 – 8.1
Telecommunications (fixed & mobile)	7.8	4.4 - 9.5	4.2	1.6 – 6.8
Chemicals	7.7	6.2 – 10.0	1.6	0.5 – 2.2
Banks	6.5	4.5 – 9.5	5.2	2.7 – 7.9

Table 5: Average sector scores and score ranges for developed and emerging market companies

[N.B. Any scores or ratings are derived purely for this exercise and, either individually or aggregated, should not in any form be regarded as a definitive assessment or profile for any company, sector or country.]

Conclusion: notwithstanding the criteria used and the limited number of sectors analysed, this 'best in class' exercise reveals a clear, general suggestion that in comparing large emerging market companies with large developed market companies, the latter tend to score higher. (A summary table of the respective sector averages is given in figure 6 below). This is quite evident for the oil & gas producers, chemicals and telecommunications sectors, but far less so for the banks. Further research would be needed to judge whether such a pattern would emerge for all other sectors as the sample size in this exercise is not large enough to provide any such conclusions.

The evidence produced by the exercise raises the question as to whether investors should set different standards for selecting emerging market companies than those for the developed world. Investors who want comparable data may feel they need to use the same standards or thresholds for both markets, while others may want to be more lenient and set lower requirements for emerging market companies. Both groups of investors would still have the scope to consider

how engagement could best be built into their investment strategy. Ultimately, these considerations lead to the broader question of whether there should be differences in investor strategy towards the two markets.

Other findings - local issues

In introducing the research for the study, attention was drawn to EIRIS' standard criteria ideally requiring the supplementation of more 'local' or national criteria. This stems from either (i) the current standard criteria reflecting conditions in current research regions⁶⁰ that may sit uneasily with local conditions, cultures or practices in emerging markets, or (ii) the existence of some notable local issues would require the extension of EIRIS research coverage.

Some selected examples below illustrate the two categories. In the first category:

- equal opportunities are conceptualised in a different way to much of the developed world e.g. in South Africa and India there is a need to address historically disadvantaged groups

- even though they may constitute the majority of the population.
- a different legal structure exists for trade unions in China, where independent trade unions are illegal, with all workers belonging to the Communist Party controlled umbrella body All China Federation of Trade Unions (ACFTU).
 - different governance structures operate in Taiwan, where the independence of the auditing committee is less clear cut. Companies have corporate auditors, which include both internal and outside members. Outside corporate auditors are not board directors, although they attend board meetings. Therefore in the research they were not counted as audit committee members.
 - environmental performance data often focuses more on legislation and fines than year on year comparisons of performance.

In the second category:

- the prevalence of the HIV/Aids issue in many countries requires companies to address the issue in terms of prevention and responding to high rates of infection in their workforces.
- the treatment of indigenous or aboriginal peoples.
- access to water and the impact on local communities and ecosystems
- poverty alleviation and the extent to which a company's operations benefit the wider community
- human embryonic stem cell research, which is more an issue for emerging markets, such as South Korea and India, than for developed markets. For example, the Indian company, Reliance

Life Sciences (RLS) (the life science and biotechnology arm of Reliance Industries), plans to commercially introduce India's first stem cell-based therapy in 2007.⁶¹

Other findings arising from the research - general issues

Some other issues or observations that emerged in conducting the research were as follows:

- some companies in emerging markets provide CSR reporting that is every bit as good as the best practitioners in the developed world e.g. Hyundai Motor (South Korea) and a number of South African companies
- most companies produced material in English. However, availability of the latest documents may be a factor e.g. Surgutneftegaz (Russia) only made their 2002 annual reports available at the time of the research.
- the response to the survey mailing was minimal and disappointing, although the reason for this in each individual case is unclear.
- the inadequate disclosure of data especially for some issues such as trade unions and labour (China and South Korea) and water use, which is becoming a major and increasing issue of concern for the developing world especially around conflicts between industrial use and community use.

4. Main conclusions from the research

A review of the field indicates that investors have taken an interest in emerging markets and that an SRI approach can bring benefits for sustainability in these countries. EIRIS research supports the feasibility of adopting an SRI approach for these markets.

With the study restricted to 50 large companies, the results and findings should be treated with some caution. Nonetheless there is sufficient evidence to suggest there is extractable data that can be used and adapted to suit different investment styles. Even if the level of disclosure and company engagement has not been as extensive as socially responsible investors might like, the overwhelming majority of companies in the study have shown evidence of addressing at least some ESG issues in their public disclosures, with some doing so significantly.

Not many companies were identified by a traditional screening approach, perhaps due to the sector biases contained within both the 50 study companies and the FTSE All Emerging Index. It nevertheless identified a few companies that investors might initially have expected to be 'acceptable'. Overall it would suggest that SRI investors could run a fund based on a traditional screening approach which would not be hampered by a heavily restricted universe of companies. It could also encourage fund managers to diversify their stock selection by including emerging market companies in their portfolios.

A screening approach that focuses on allegations of convention breaches identified a greater number of companies that might be regarded as 'unacceptable' for some investors,

perhaps depending on whether the allegations are deemed to have been addressed or not. Investors concerned about unmanaged SEE risks might find this type of screen useful.

The testing of other approaches involving either a governance or environmental bias, or the adoption of a 'best in class' policy, all revealed possibilities that each could be employed to either identify companies that may be favoured or companies to be avoided. A good range of scores were found for each investor style.

For governance, whilst country by country results tend to suggest the merits of a country specific approach, there are some countries where performance is sufficiently variable that a stock-specific approach might make more sense to an investor. For a 'best in class' approach, there are sufficiently clear distinctions between 'better' and 'worst' companies that investors may want to capture, with both 'best of sector' and 'best of country' possible options.

Of course it would be wrong to think of any of these approaches as mutually exclusive. It would be quite possible, for instance, to combine a 'best in class' approach with a screening overlay. A concern about any breaches of environmental conventions might be complemented by taking into account the environmental policy, management and performance of the company i.e. a company with an alleged breach of an environmental convention would be in a better position of preventing its re-occurrence if it demonstrated 'good' environmental management systems and performance.

The study also indicates clear opportunities for engagement. The diverse scores produced in this study for particular sectors or countries

provide models of better practices and that performance improvements are possible. Comparisons with developed market peers may also help identify possible areas of engagement in specific cases.

At a country level, whilst South Africa appears notably ahead of other emerging markets, some countries have yet to produce evidence of companies embracing CSR and addressing sustainability issues in a substantial way e.g. China, although commentators expect this to change.⁶² Other countries may show positive signs in some spheres but lag behind in others. For instance, Taiwanese companies received poor governance scores, yet a number of them showed evidence of 'good' environmental practices. This latter point suggests that some companies might be attractive for some investment approaches, but not for others.

In extending the country perspective, a 'best in class' comparison exercise between developed and emerging market companies reveals a general suggestion that the former tend to score higher i.e. their level of CSR activity and its disclosure is greater than in the emerging markets, a position that mirrors that outlined in the review at the outset of this paper. Three sectors demonstrated this, although the oil & gas producers and telecommunications sectors both have some emerging market companies that compare favourably with large developed market companies. The fourth sector, banking, however, showed a much greater degree of

equivalence between the two markets. This suggests that investors should not simply assume emerging market companies will lag behind their developed market peers in all sectors. The results, therefore, raise the question of whether investors should set different standards for selecting emerging market companies than those for the developed world. If so, should it be across the board for all countries or sectors, or does it require a more focused approach that treats particular countries or sectors differently?

Where the research has identified areas of lower levels of performance among emerging market companies, there is every likelihood that there may be unmanaged SEE risks (perhaps more so than in much of the developed world) that will concern investors. On the other hand, those emerging market companies that do devote resources to CSR activities may well gain potential financial benefits from being seen as leaders among their peers.

Overall the study confirms that for those investors who are prepared to embrace the investment opportunities, an SRI approach for emerging markets can extract diversity in company performance, provide potential choices among companies and offer ways in which SRI investors can extend their horizons. Not only might this be financially rewarding (if other commentators are correct in their assessments), but it could also help bring sustainability improvements along the way.

Further reading

ASrIA (2006), *Taking Stock: Adding Sustainability Variables to Asian Sectoral Analysis*. Hong Kong.

International Finance Corporation (2003), *Towards sustainable and responsible investment in emerging markets*, Washington DC, USA.

SustainAbility (2002), *Developing Value: the Business Case for Sustainability in Emerging Markets*. London.

Appendix 1: The Business Case for Sustainability in Emerging Markets

		Sustainability Factors						
		Governance & Engagement		Environmental Focus		Socio-Economic Development		
		Governance & Management	Stakeholder Engagement	Environmental Process Improvement	Environmental products / Services	Local Economic Growth	Community Development	Human Resource Management
Business Success Factors	Revenue Growth & Market Access							
	Cost Savings & Productivity							
	Access to Capital							
	Risk Management & License to Operate							
	Human Capital							
	Brand Value & Reputation							

Key

	Strong evidence of a business case
	Some evidence of a business case
	No evidence of a business case

Source: SustainAbility (2002), *Developing Value: the Business Case for Sustainability in Emerging Markets*. London.

Appendix 2: List of the 50 companies included in the study derived from the FTSE All Emerging Index on 31 December 2004

Notes:

- The companies are listed in market capitalisation order from largest to smallest. Missing numbers in the order reflect companies omitted as they were outside the top 30 and had no evidence of CSR commitment based on the criteria below.
- CSR commitment was calculated on whether the company met any of the following:
 - listed GRI reporter on 1/12/04
 - producers of CSR / Environmental / Sustainability type reports listed on <http://www.corporateregister.com>
 - members of the DJ Sustainability Index on 30/09/04
 - members of the World Business Council for Sustainable Development (WBCSD)
 - signatories to the UN Global Compact

Mkt Cap Order	Company	Country	Former FTSE Sector	ICB sector	Basis of inclusion
1	Samsung Electronics	South Korea	IT Hardware	Technology Hardware & Equipment	Top30
2	Petrobras	Brazil	Oil & Gas	Oil & Gas Producers	Top30
3	Taiwan Semiconductor	Taiwan	IT Hardware	Technology Hardware & Equipment	Top30
4	America Movil	Mexico	Telecommunication Services	Mobile Telecommunications	Top30
5	Vale Do Rio Doce	Brazil	Mining	Industrial Metals	Top30
6	Lukoil Holding	Russia	Oil & Gas	Oil & Gas Producers	Top30
7	Teva Pharmaceutical	Israel	Pharmaceuticals & Biotechnology	Pharmaceuticals & Biotechnology	Top30
8	POSCO	South Korea	Steel & Other metals	Industrial Metals	Top30
9	Standard Bank Group	South Africa	Banks	Banks	Top30
10	Telmex	Mexico	Telecommunication Services	Fixed Line Telecommunications	Top30
11	Sasol	South Africa	Oil & Gas	Oil & Gas Producers	Top30
12	Kookmin Bank	South Korea	Banks	Banks	Top30
13	MTN Group	South Africa	Telecommunication Services	Mobile Telecommunications	Top30
14	Cemex	Mexico	Construction & Building Materials	Construction & Materials	Top30
15	Hon Hai Precision Co.	Taiwan	Electronic & Electrical Equipment	Technology Hardware & Equipment	Top30
16	Surgutneftegaz	Russia	Oil & Gas	Oil & Gas Producers	Top30
17	FirstRand Limited	South Africa	Banks	Banks	Top30
18	Petrochina	Czech Republic	Oil & Gas	Oil & Gas Producers	Top30
20	Hyundai Motor	South Korea	Automobiles & Parts	Automobiles & Parts	Top30
21	Formosa Plastics	Taiwan	Chemicals	Chemicals	Top30

Mkt Cap Order	Company	Country	Former FTSE Sector	ICB sector	Basis of selection
22	OTP	Hungary	Banks	Banks	Top30
23	United Microelectronics	Taiwan	IT Hardware	Technology Hardware & Equipment	Top30
24	Cathay Financial Holding	Taiwan	Speciality & Other Finance	General Financial	Top30
25	Reliance Industries	India	Chemicals	Chemicals	Top30
26	China Steel	Taiwan	Steel & Other metals	Industrial Metals	Top30
27	Banco Itau Holding Financeira	Brazil	Banks	Banks	Top30
29	Banco Bradesco	Brazil	Banks	Banks	Top30
30	Nan Ya Plastic	Taiwan	Chemicals	Chemicals	Top30
31	SK Telecom	South Korea	Telecommunication Services	Mobile Telecommunications	Top30
34	Formosa Chemicals & Fibre	Taiwan	Chemicals	Chemicals	CSR score
41	LG Electronics	South Korea	Household Goods & Textiles	Leisure Goods	CSR score
43	Sanlam	South Africa	Life Assurance	Life Insurance	CSR score
45	Infosys Technologies	India	Software & Computer Services	Software & Computer Services	CSR score
47	Gold Fields	South Africa	Mining	Mining	CSR score
51	MOL	Hungary	Oil & Gas	Oil & Gas Producers	CSR score
52	Impala Platinum Hlds	South Africa	Mining	Mining	CSR score
55	Malayan Banking	Malaysia	Banks	Banks	CSR score
63	China Petroleum & Chemical	China	Oil & Gas	Oil & Gas Producers	CSR score
65	Telkom	South Africa	Telecommunication Services	Fixed Line Telecommunications	CSR score
68	Telekomunikacja Polska	Poland	Telecommunication Services	Fixed Line Telecommunications	CSR score
69	Tenaga Nasional	Malaysia	Electricity	Electricity	CSR score
70	Bidvest Group	South Africa	Support Services	Support Services	CSR score & mailing response
74	Barloworld	South Africa	Diversified Industrials	General Industrials	CSR score
80	PKN Orlen	Poland	Oil & Gas	Oil & Gas Producers	CSR score
85	Samsung SDI	South Korea	Electronic & Electrical Equipment	Electronic & Electrical Equipment	CSR score
86	Oil & Natural Gas Corporation	India	Oil & Gas	Oil & Gas Producers	CSR score
87	PTT	Turkey	Oil & Gas	Oil & Gas Producers	CSR score
93	Brasil Telecom	Brazil	Telecommunication Services	Fixed Line Telecommunications	CSR score
124	Akbank	Turkey	Banks	Banks	CSR score & survey response
128	Nedbank Group	South Africa	Banks	Banks	CSR score & survey response

Appendix 3: FTSE Emerging Market countries included / not included in the Universe of 100 & Study of 50 companies

	FTSE All Emerging	FTSE Advanced Emerging	BRIC	In Universe 100	In Study 50
Argentina	✓			✗	✗
Brazil	✓	✓	✓	✓	✓
Chile	✓			✗	✗
China	✓		✓	✓	✓
Colombia	✓			✗	✗
Czech Republic	✓			✓	✗
Egypt	✓			✗	✗
Hungary	✓			✓	✓
India	✓		✓	✓	✓
Indonesia	✓			✗	✗
Israel	✓	✓		✓	✓
Malaysia	✓			✓	✓
Mexico	✓	✓		✓	✓
Morocco	✓			✗	✗
Pakistan	✓			✗	✗
Peru	✓			✗	✗
Philippines	✓			✓	✗
Poland	✓			✓	✓
Russia	✓		✓	✓	✓
South Africa	✓	✓		✓	✓
South Korea	✓	✓		✓	✓
Taiwan	✓	✓		✓	✓
Thailand	✓			✓	✓
Turkey	✓			✓	✓

Appendix 4: FTSE Emerging Market ICB sectors included/ not included in the Universe of 100 & Study of 50 companies

ICB Sector	FTSE All Emerging	Universe 100	Study 50
Oil & Gas Producers	✓	✓	✓
Oil Equipment, Services & Distribution	✓	✗	✗
Chemicals	✓	✓	✓
Forestry & Paper	✓	✓	✗
Industrial Metals	✓	✓	✓
Mining	✓	✓	✓
Construction & Materials	✓	✓	✓
Aerospace & Defence	✓	✗	✗
General Industrials	✓	✓	✓
Electronic & Electrical Equipment	✓	✓	✓
Industrial Engineering	✓	✓	✗
Industrial Transportation	✓	✓	✗
Support Services	✓	✓	✓
Automobiles & Parts	✓	✓	✓
Beverages	✓	✓	✗
Food Producers	✓	✗	✗
Household Goods	✓	✗	✗
Leisure Goods	✓	✓	✓
Personal Goods	✓	✓	✗
Tobacco	✓	✓	✗
Health Care Equipment & Services	✓	✗	✗
Pharmaceuticals & Biotechnology	✓	✓	✓
Food & Drug Retailers	✓	✗	✗
General Retailers	✓	✗	✗
Media	✓	✗	✗
Travel & Leisure	✓	✓	✗
Fixed Line Telecommunications	✓	✓	✓
Mobile Telecommunications	✓	✓	✓
Electricity	✓	✓	✓
Gas, Water & Multi-utilities	✓	✓	✗
Banks	✓	✓	✓
Non-life Insurance	✓	✓	✗
Life Insurance	✓	✓	✓
Real Estate	✓	✗	✗
General Financial	✓	✓	✓
Software & Computer Services	✓	✓	✓
Technology Hardware & Equipment	✓	✓	✓

Appendix 5: Policy and scoring system for the 'Governance Concerns' investor style

For each area, the assessment grades awarded to each company are scored as follows:

Area	+3	+2	+1	0	-1	-2	-3
Core governance		All	Some		One	None	
Women on the Board		>33%	20-33%	At least one, but not 20%	None		
Code of ethics	Advanced	Inter-mediate	Basic		Limited	No evidence	
SEE risk management		Advanced	Good	Inter-mediate	Limited	No evidence	

Note

Code of ethics covers both policy and management systems.

Total score

A company could score within a range of +9 to -7.

The range and scores are then normalised to a 10 point scale.

Appendix 6: Policy and scoring system for the 'Environment Concerns' investor style

For each of environmental policy, management and reporting the assessment grades awarded to each company are scored as follows:

Impact level	+3	+2	+1	0	-1	-2	-3
High	Exceptional	Good	Moderate			Weak	Inadequate
Medium	Exceptional	Good	Moderate		Weak	Inadequate	
Low	Exceptional	Good	Moderate	Weak	Inadequate		

For environmental performance the assessment grade awarded to each company is scored as follows:

Impact level	+3	+2	+1	0	-1	-2	-3
High	Major improvement	Significant improvement	Minor improvement			No improvement	No or inadequate data
Medium	Major improvement	Significant improvement	Minor improvement		No improvement	No or inadequate data	
Low	Major improvement	Significant improvement	Minor improvement	No improvement	No or inadequate data		

Note

Reflecting the potentially greater harm to the environment from high impact companies, the 'poorer' assessment grades are awarded bigger minus scores. Conversely, the low impact companies are scored less 'harshly'.

Therefore the overall ranges for each impact level vary, reflecting the relative demands placed on the environment by each impact level.

A high impact company could score within a range of +12 to -12

A medium impact company could score within a range of +12 to -8

A low impact company could score within a range of +12 to -4

The range and scores are then normalised to a 10 point scale.

Appendix 7: Policy and scoring system for the 'Best in Class' investor style

This combines four areas. For each of the four areas, the assessment grades awarded to each company are scored as follows:

Code of ethics

- the same scoring system was used as that employed under 'governance concerns'

Environment

- the same scoring system was used as that employed under 'environment concerns'

Employees

Sub-area	+3	+2	+1	0	-1	-2	-3
Equal opportunities	Good	Moderate	Basic			Little or no evidence	
Health & safety	Clear evidence		Some evidence			Little or no evidence	
Training	Clear evidence		Some evidence			Little or no evidence	
Trade unions	Clear evidence		Some evidence			Little or no evidence	
Job creation	Clear evidence		Some evidence			Little or no evidence	

Note

Equal opportunities covers both policy and management systems.

Human rights

Size / type of company	+3	+2	+1	0	-1	-2	-3
Large presence	Advanced	Intermediate	Basic			Little or no evidence	
Small presence	Advanced	Intermediate	Basic		Little or no evidence		
Large oil, gas & mining companies	Advanced	Intermediate	Basic				Little or no evidence
Small oil, gas & mining companies	Advanced	Intermediate	Basic			Little or no evidence	

Note

In each case the score is for an overall grade combining the extent of policies and management systems addressing human rights issues.

The scores for each area consequently range as follows:

Area	Range	Note
Code of ethics	+3 to -2	
Environment	+12 to -12 / -8 / -4	Potential minus scores depends on impact level classification level of company
Employees	+15 to -10	
Human Rights	+3 to -3	Not all companies were found to be present in countries of human rights concerns. In such cases, a score of 0 is awarded.

To harmonise each area, the company scores for environment were divided by four and the scores for employees were divided by five. This provided an overall scoring system as follows:

Area	Range
Code of ethics	+3 to -2
Environment	+3 to -3 / -2 / -1
Employees	+3 to -2
Human Rights	+3 to -3
Overall range	+12 to -10

The range and scores are then normalised to a 10 point scale.

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EPM also provides research on environmental management, systems and reporting, specific environmental concerns, human rights issues, stakeholder concerns, as well as more traditional SRI areas such as military involvement and genetic engineering.

Please contact the client team for further information and to try out EPM (clients@eiris.org).

Notes

¹ This concept viewed the development of the states at the centre of the world economy and the underdevelopment and subordination of states in the periphery as being intrinsically linked in the same process. Frank's analysis, together with a whole body of work emanating from the developing world, constituted what was to be known as dependency theory. See Frank, A.G. (1969), *Capitalism and Underdevelopment in Latin America*, Monthly Review Press: New York: 1967, revised ed; Penguin Books: London 1971.

² For a summary see http://en.wikipedia.org/wiki/East_Asian_Tigers

³ Koch, E. and Korhonen, I. (2000) *The Aftermath of the Russian Debt Crisis*, Bank of Finland: Institute for Economies in Transition, Helsinki, <http://www.bof.fi/bofit/fin/7online/abs/pdf/bon0700.pdf>

⁴ It is believed that the term became commonly used following a 2003 Goldman Sachs paper. This argued that the economies of the BRICs are rapidly developing having changed their political systems to embrace capitalism with the expectation that by the year 2050, they will eclipse most of the current richest countries of the world. For a summary see <http://en.wikipedia.org/wiki/BRIC>

⁵ Position is due to be reviewed in September 2006. See <http://www.ftse.com/Indices/Country%20Classification/index.jsp>

⁶ Some see 'emerging markets' as a marketing term rather than a meaningful, coherent geographical or socio-economic concept.

⁷ The term corporate social responsibility (CSR) is used in this paper to refer to the policies and practices of companies that have environmental, social, governance or other ethical dimensions. The term socially responsible investment (SRI) is used in this paper to refer to the activities of investors who take environmental, social, governance or other ethical factors into account when making investment decisions.

⁸ Welford R. (2004), *Corporate social responsibility in Europe, North America and Asia: 2004 survey results*, Corporate Environmental Governance Programme, University of Hong Kong. <http://web.hku.hk/~cegp/image/publications/report11.pdf>. In Asia there is an uneven awareness and addressing of sustainability risks. Many leading companies show signs of tackling them, but this is less so among smaller companies. The definition of risks is less clear. There is some consensus relating to environmental risks, but much less so around social and labour issues, where the issues and risks are perceived differently from country to country. Melissa Brown, *How responsible is adolescent Asia*, Accountability Forum 3, Autumn 2004.

⁹ Allan Conway, head of global emerging market equities at Schroders, cited in *Anybody's portfolio in a storm*, FTfm, Financial Times, 15 March 2005.

¹⁰ *F&C eyes emerging markets*, FTfm, Financial Times, 9 May 2005

¹¹ South Korean companies have traditionally had their value discounted due to the family controlled chaebols, but large companies who have enacted some reforms such as Samsung Electronics are still seen as being good value. See *A yen for socially responsible investments*, FTfm, Financial Times, 19 December 2005, <http://search.ft.com/searchArticle?queryText=socially+responsible+investments&javascriptEnabled=true&id=051219000752>

¹² One observer, Charles Dallara (Managing Director of the Institute of International Finance, a lobby group for the world's major international financial institutions), believes that although emerging markets have become more resilient, their attraction is partly due to low interest rates in the 'developed world'. If rates were to rise, then the emerging markets could lose their attractiveness. *Storms ahead for emerging markets*, Financial Times, 12 June 2006. See also *Emerging markets enter the mainstream*, FT Money, 24 June 2006.

¹³ ASrIA (2006), *Taking Stock: Adding Sustainability Variables to Asian Sectoral Analysis*. Hong Kong.

¹⁴ This could affect the interests of BG Group (UK), Repsol YPF (Spain), Petrobras (Brazil) and Total (France) in the country. See <http://news.bbc.co.uk/1/hi/business/4801233.stm>

¹⁵ See http://www.unepfi.org/work_programme/investment/emerging_markets/index.html

¹⁶ See <http://ry.com/news/news/?id=2027>

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- ¹⁷ See for instance the aims of the non-profit organisation VantagePoint which seeks to harness the power of investment to achieve economic, social and environmental benefits in emerging markets by, *inter alia*, helping to raise awareness of the risks and challenges and improving the capacities of local investment providers. <http://www.vantagep.org/>. Also the IFC, an arm of the World Bank, is aiming to support initiatives and build CSR / SRI research capacity in these countries. The emphasis on facilitating local capacity seems critical.
- ¹⁸ International Finance Corporation (2003), *Towards sustainable and responsible investment in emerging markets*, Washington DC, USA.
- ¹⁹ both summarised by William Baue, *Matrix Plots Business Case for Sustainability in Emerging Markets*, 6 August 2002, <http://www.socialfunds.com/news/article.cgi/898.html>
- ²⁰ Tobias Webb, *Is Asian corporate governance improving?*, Ethical Corporation, May 2006.
- ²¹ See case study in International Finance Corporation (2003), *Towards sustainable and responsible investment in emerging markets*, Washington DC, USA; also see <http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2006/april/indonesia-pe-market.xml>
- ²² William Baue, *SRI growing amongst European institutional investors and in Asian emerging markets*, 17 October 2003, <http://www.socialfunds.com/news/article.cgi/article1245.html>
- ²³ Dan Siddy, *Sustainable & Responsible Investment in Emerging Markets: Private Equity and Listed Equity*, presentation at European Corporate Governance & Responsible Investment Summit, Stockholm, June 8-9, 2005.
- ²⁴ See *A yen for socially responsible investments*, FTfm, Financial Times, 19 December 2005, <http://search.ft.com/searchArticle?queryText=socially+responsible+investments&javascriptEnabled=true&id=051219000752>
- ²⁵ See http://www.calvert.com/funds_all_holdings.html?fund=926&keepleftnav=Fund%20Holdings
- ²⁶ See http://www.sustainability-index.com/djsi_protected/djsi_world/components/DJSIWorld_Country_Rev2005.pdf
- ²⁷ International Finance Corporation (2003), *Towards sustainable and responsible investment in emerging markets*, Washington DC, USA.
- ²⁸ From an African Institute of Corporate Citizenship (AICC) report, *Sustainability Banking in Africa* (September 2004), cited by Bulleid, R., (2005) *Getting it right first time around*, Environmental Finance, February 2005, <http://www.environmental-finance.com/2005/0502feb/emerge.htm>
- ²⁹ Bulleid, R., *ibid*.
- ³⁰ See FTfm, *Financial Times*, 29 May 2006.
- ³¹ See <http://www.unpri.org/>
- ³² See <http://www.jse.co.za/sri/>
- ³³ See <http://www.socialfunds.com/news/article.cgi/1639.html>
- ³⁴ See <http://www.bovespa.com.br/indexi.asp>
- ³⁵ ASrIA (2006), *op cit*.
- ³⁶ Mark Mobius, cited in *Asia plays catch up with ethical funds*, Daily Times, 6 June 2004.
- ³⁷ Mike Scott, *Investors told SRI key in India*, FTfm, Financial Times, 8 May 2006.
- ³⁸ Such concerns arose in the research for the ASrIA study, *Taking Stock: Adding Sustainability Variables to Asian Sectoral Analysis*, Melissa Brown, personal communication.
- ³⁹ See FTfm, Financial Times, 6 September 2004.
- ⁴⁰ Bulleid, R., *op cit*.
- ⁴¹ Interview with Mark Mobius (head of emerging markets at Franklin Templeton), *Guru who can make an emerging market jump*, *Financial Times*, 2 October 2004.
- ⁴² Tobias Webb, *Is Asian corporate governance improving?*, Ethical Corporation, May 2006.
- ⁴³ See FTfm, Financial Times, 23 January 2006.
- ⁴⁴ David Gait, personal communication.
- ⁴⁵ Nick Robins, quoted in *Asia plays catch up with ethical funds*, Daily Times, 6 June 2004; Bulleid, R., *op cit*.; ASrIA (2006), *op cit*.
- ⁴⁶ *KPMG International Survey of Corporate Responsibility Reporting 2005*, KPMG International / University of Amsterdam, May 2005.

⁴⁷ The Chinese press are now reporting stories on pollution and labour disputes. Melissa Brown, personal communication. ASrIA has found that IPOs of Chinese manufacturing companies listing in Hong Kong are often the only channel through which Chinese companies disclose information on environmental and social risks, and then not always fully. *Chinese producers 'give inadequate risk data'*, Financial Times, 28 August 2006.

⁴⁸ Partners for Financial Stability (PFS) (supported by The United States Agency for International Development (USAID)) undertakes a semi-annual survey of CSR reporting in Central and Eastern Europe. There is no clear upward trend in either environmental or social reporting with the amount of reporting fluctuating in each case at around 40% of companies disclosing in their annual reports or on their websites over the last 3 years. See http://www.pfsprogram.org/capitalmarkets_research.

⁴⁹ In cases where there were two lines of stock, the market capitalisation was determined by adding the value of both lines together and assessing then as one company.

⁵⁰ Fundacion Ecologia y Desarrollo (Ecodes), based in Zaragoza, is an established Spanish non-governmental organisation in the field of environment and development. See <http://www.ecodes.org/>

⁵¹ Bidvest Group (South Africa) responded by supplying company reports. Nedbank Group completed each of the governance, social and environment surveys, whilst Akbank (Turkey) completed just the governance and social surveys. FirstRand (South Africa) also replied by sending company reports and documents but no surveys. It was already included in the study by being in the top 30 companies.

⁵² An EIRIS service, called Convention Watch, tracks alleged 'breaches' of international norms and conventions and indicates whether these have been addressed or not.

⁵³ I am grateful for the advice of David Gait at First State Fund Managers on some of these issues.

⁵⁴ EPM enables investors to define their ethical policy, view the results of that policy for any company, and look at the overall impact of the policy on a portfolio, universe of companies and the market.

⁵⁵ Thanks are due to Mairead Hancock, Client Relationship Director at EIRIS, for her assistance and help with this analysis.

⁵⁶ For instance in 2004 Brazil produced its third revised and enlarged edition of its Code of Best Practice of Corporate Governance issued by the Brazilian Institute of Corporate Governance (IBGC) that was first introduced in 1999.

See http://www.ecgi.org/codes/documents/ibgc_may2004.pdf.

In 2006 Thailand published The Principles of Good Corporate Governance for Listed Companies, an updated version of the 15 principles announced in March 2002.

See http://www.acga-asia.org/public/files/Thai_New_CG_Code_March2006.pdf

⁵⁷ In 1994, a South African committee chaired by Mervyn King released a Code of Corporate Practices and Conduct (King Code I), which was revised in March 2002 (King Code II).

⁵⁸ For a discussion of relative progress in corporate governance standards, see *Corporate Governance Reform in Asia: Fact, Fiction and Fantasy*, presentation by Jamie Allen, Secretary General, Asian Corporate Governance Association (ACGA) at the Fidelity Investments, Asian Institutional Roundtable Hong Kong, June 29, 2006, http://www.acga-asia.org/public/files/ACGA_Presentation_FidelitySeminar_June29_2006.pdf

⁵⁹ Following major corporate scandals, a Center for Good Corporate Governance was set up to act as a watchdog for institutional investors.

See http://cgcg.or.kr/cgcg/cgcgmain/html_en/index.htm

⁶⁰ EIRIS' traditional research regions are the 'developed countries' as defined by FTSE's All World Developed Index.

⁶¹ See <http://www.dnaindia.com/report.asp?NewsID=1035808>

⁶² Forthcoming reforms of China's labour laws are expected to include regulations that will exceed European standards giving Chinese workers greatly improved conditions. *Come the revolution*, The Guardian, 24 June 2006, <http://www.guardian.co.uk/china/story/0,,1804659,00.html>

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