



Creating Metrics for Corporate Governance and Sustainable Development

Corporate Responsibility and Capital Markets

Managing Qualitative Risk Issues

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Governance Services

Standard & Poor's

**STANDARD
& POOR'S**





Creating Metrics for Corporate Governance and Sustainable Development

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





Corporate Governance: Recent Research

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

No internationally recognized standards or benchmarks





What Standard & Poor's is doing

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

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

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

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





Standard & Poor's Corporate Governance Services

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

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





Corporate Governance Analytical Framework

Company Analytical Structure

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

Country Analytical Structure

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





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

Ownership Structure & Concentration

- ✦ *Transparency of Ownership*
- ✦ *Concentration and influence of ownership*
- ✦ *Influence of external stakeholders*

Investor Rights and Relations

- ✦ *Voting and shareholder meeting procedures*
- ✦ *Ownership rights*
- ✦ *Takeover defenses*

Transparency & Disclosure

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

Board Structure & Process

- ✦ *Board structure and composition*
- ✦ *Board process and responsibilities*
- ✦ *Role of independent directors*
- ✦ *Board/executive compensation and succession policies*





Governance Scoring Criteria: Is there a global standard?

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

- ✦ **Principles- based approach**
 - ✦ *Fairness*
 - ✦ *Transparency*
 - ✦ *Accountability*
 - ✦ *Responsibility*

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





Moving beyond the financial approach to governance to sustainability metrics

Business Model

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





Moving beyond the financial approach to governance to sustainability metrics

Analytical Issues

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





Moving beyond the financial approach to governance to sustainability metrics

Analytical Framework: New Metrics

✍ Natural Capital

- Use of energy and renewable resources
- Pollution
- Recyclability

✍ Human Capital

- Training and development
- Diversity and equal opportunity
- Workplace safety and relations

✍ Social Capital

- Community engagement
- Corporate philanthropy
- Costs/benefits to local economy

