



Responsible Business Conduct: The Business Case for SRI

United Nations Conference Centre, Bangkok

3rd November 2009

Challenges: Building a Consensus

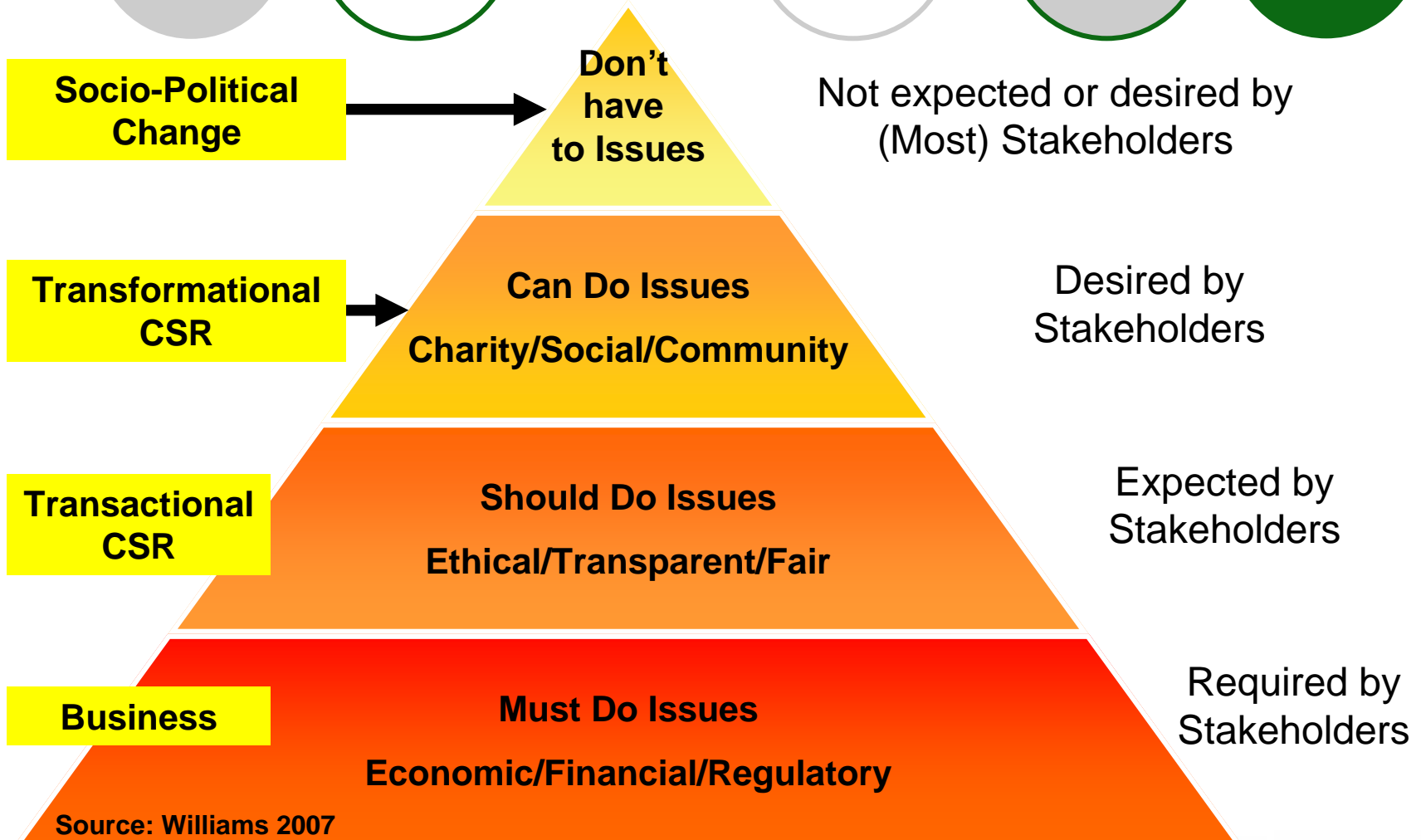
- There is now a consensus on what CSR is...
- *“Responsible businesses achieve success by going beyond what is required by law to make a positive and sustainable impact on society and the environment through their management, operations and products and through their engagement with stakeholders including employees, customers, investors, communities and suppliers”*
- **Triple Bottom Line**
 - Economic/Financial
 - Environmental
 - Social
- **+ Stakeholder Engagement**

What is CSR: The Official Position...

“The Silver Book takes a strategic perspective on contributions to society. Social contributions are not just about philanthropy or meeting an external set of compliance criteria on Corporate Social Responsibility (CSR). Rather, they are about creating sustainable benefits to society as part of making a business competitive over the longer term. Done right, such contributions enhance brand image and increase the ability to attract and retain the best workforce, translating into better client satisfaction, improved customer loyalty and ultimately, stronger financial performance.”

Source: Silver Book 2006

An Efficient Stakeholder Pyramid...



What is SRI?

“Socially Responsible Investing (SRI) is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. It is a process of identifying and investing in companies that meet certain standards of Corporate Social Responsibility (CSR)...”

(Social Investment Forum, 2003)

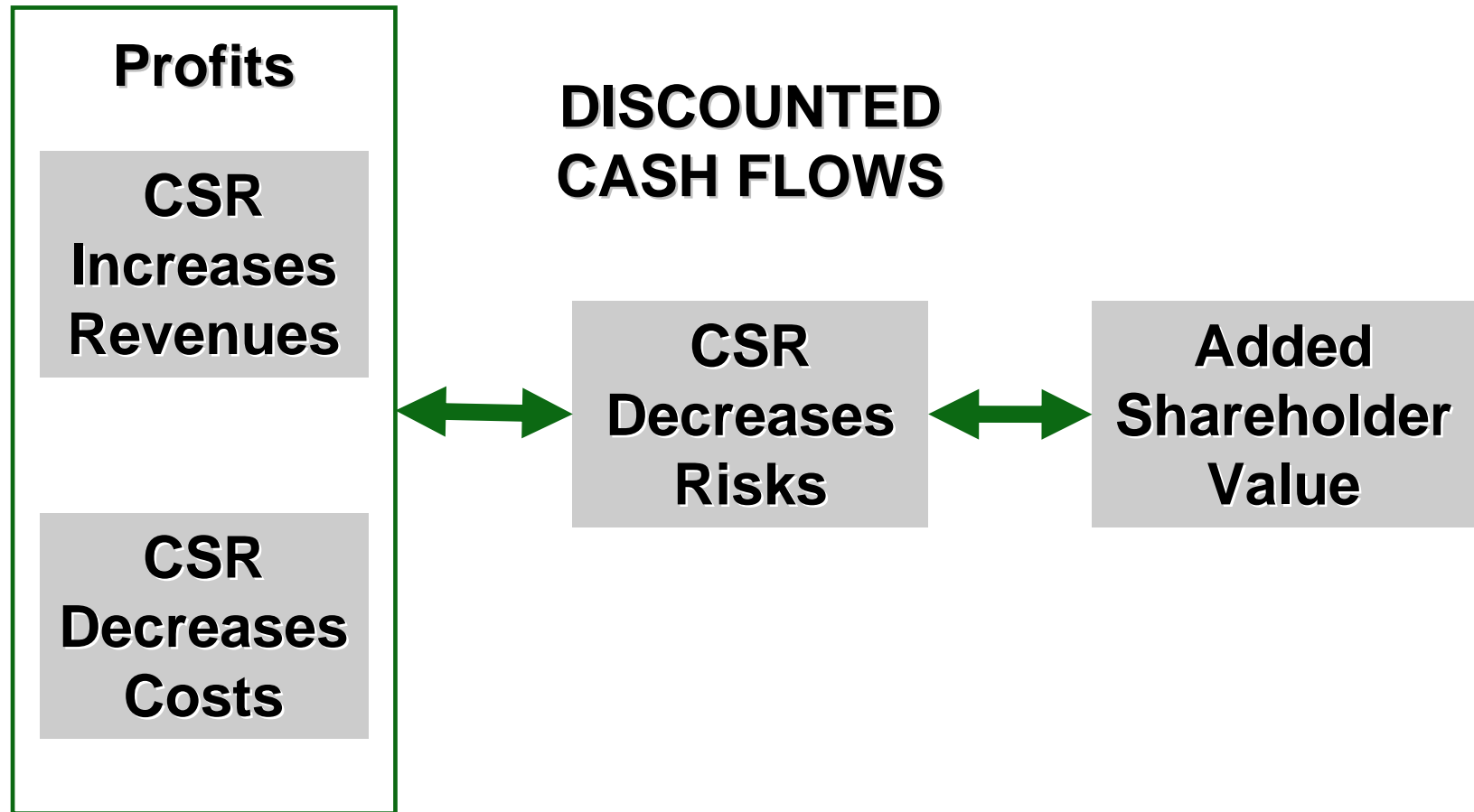
Investors like CSR...

- Global SRI Investment Funds are big business:
 - UNPRI signatories US\$18 trillion AUM
 - Around US\$5 trillion in Global SRI Funds
 - US\$300-500 billion in Syariah compatible funds
 - More than US\$2.7 trillion in US and €1.2 trillion in Europe
 - Asia around US\$32.3 billion in around 200 funds

CSR in the investment decision...

- SRI investors use standard financial analysis based on risk adjusted return with “SRI Overlay”
 - Valuation based on Discounted Cash Flows (DCF)
 - Valuation based on Comparative Returns Methods
 - Valuation based on Option Values
- The SRI Overlay provides additional non-financial information on potential company performance

CSR in Company Valuation...



The ESG Screening Methodology

The ESG Screens were:

- A set of negative screens are agreed with the index users
- A controversies screen to exclude companies of concern
- Rating over:
 - Corporate Governance
 - Environment
 - Human Rights
 - Labour Practices
 - Community
 - Business Behaviour

ESG Negative Screens

- The negative screens include:
 - Pesticides/Chloride-organic-chemistry
 - GMO
 - Nuclear Power
 - Severe violations of labour and human rights
 - Armament and Weapons
 - Tobacco
 - Alcohol
 - Pornography

OWW Assessment Approach

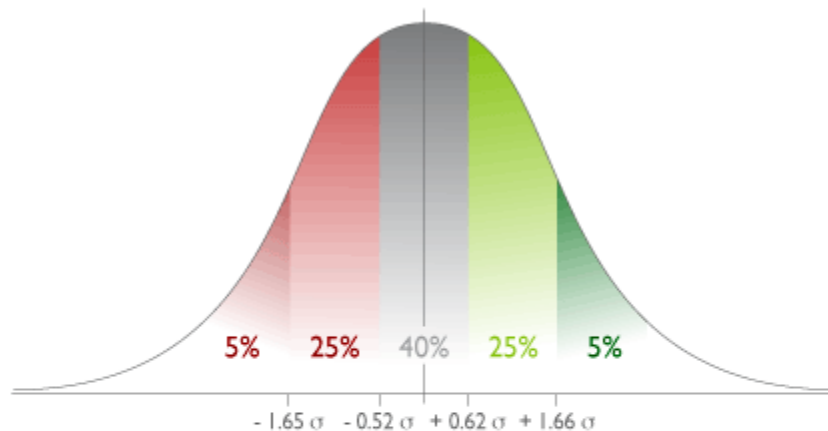
- Our assessment questionnaire collects data on CSR performance which is assessed according their quality
- The responses are scored based on:
 - Statement of management policy
 - Evidence of management performance
 - Clarity, completeness and quality of reporting
- And the % of the required information available in the public domain.

Collecting the information...

Information is collected using the following methods: -

- Publicly available sources such as annual reports and social and environmental performance statements
- From the Questionnaire which is provided to all participating companies
- The analyst engages with companies to ensure that they are clear about what information is required and to help them to collate and present the data in a useable format.
- Regular monitoring of media and industry sources

Best-in-Class Approach



- Company ranked as the least performing in the sector
- Company ranked as a below average performer in the sector
- = Company ranked as an average performer in the sector
- + Company ranked as an active performer in the sector
- ++ Company ranked as a leading performer in the sector

Screens: Environment

EV Environmental

EV1 Environmental Policy & Systems

- Environmental strategy
- Policy on pollution management & performance
- Development of green products or services
- Climate Change and Financial Implications

EV2 Environmental Impact Management

- Protection of biodiversity
- Protection of water resources
- Minimising impacts from energy use
- Management of atmospheric emissions
- Waste management
- Local pollution management
- Management of environmental impacts from transportation
- Management of environmental impacts from the use and disposal of products/services

EV3 Environmental Performance

- Protection of biodiversity
- Protection of water resources
- Minimising impacts from energy use
- Management of atmospheric emissions
- Waste management
- Local pollution management
- Management of environmental impacts from transportation
- Management of environmental impacts from the use and disposal of products/services

Screens: Labour Practices

LAB Labour Practices & Decent Work

LAB1 Decent Work Practices

- Encouraging employee participation
- Responsible management of restructurings (Notice Period)
- Career management and promotion of employability
- Quality of remuneration systems
- Respect and management of working hours
- Diversity and Equal Opportunity
- Policy on Local Hiring
- Remuneration percentile higher than local minimum/average

LAB2 Improvement of health and safety conditions

- Workforce represented in management-worker health and safety committees
- Published rates of injury, occupational diseases, lost days and absenteeism
- Education, counselling, prevention, and risk-control regarding serious diseases
- Health and safety topics covered in formal agreements with trade unions

Screens: Human Rights

HR Human Rights

HR1 Respect for Human Rights Standards and prevention of violations

Contract Screening
Supplier Screening
Training Staff
Training Security
Indigenous Rights

HR2 Respect for freedom of association and the right to collective bargaining

Reference to the ILO conventions (ILO C87; ILO C98 ; ILO C154;...)
Reference to other international reference texts
Protection of freedom of association and the right to organize
Respect of the right to collective bargaining
Respect and protection of workers' representatives
Facilitation of trade union rights exercise
Promotion of the right to collective bargaining

HR3 Non-discrimination

Gender
Race / Ethnicity / Nationality
Social background
Religion
Family responsibilities (including pregnancy)
Disabilities
Sexual orientation
Political opinion
Union affiliation
Discrimination in employment decisions (hiring / promoting / redundancies)
Discrimination in working conditions
HIV Status

HR4 Elimination of child labour and forced labour

Overall Policy
Detailed Published Policy, Clear Responsibility
Monitoring and Audit Functions & Reporting
Policy extends to suppliers and sub-contractors

Screens: Community

COM Community

COM1 Promotion of the social and economic development of local communities

- Direct Social Development Cases Identified
- Direct Economic Development Cases Identified
- Indirect Social Development Quantified
- Indirect Economic Development Quantified

COM2 Social impacts of the company's products / services

- Direct Social Impact Identified/Acknowledged
- Indirect Social Impact Identified Identified/Acknowledged
- Direct/Indirect Social Impact Quantified/Cases (Stable)
- Direct/Indirect Social Impact Quantified/Cases (Improving)
- Actively Eliminating Negative Impacts or Enhancing Positive Impacts

COM3 Contribution to general interest causes

- Contribution % of Gross Profit
- Sustainable/Long-term Relations with Community Based Organisations
- Employee Volunteering
- Specific Endowment/Foundation
- Trend improvement over at least 3 years

Screens: Business Behaviour

BB Business Behaviour

BB1 Responsible Customer Systems

- Product Safety
- Information to customers
- Responsible Contractual Agreement
- Responsible Marketing Communication
- Protection of Customer Privacy
- Customer Satisfaction/Engagement Tools

BB2 Supplier & Sub-contractor Management Systems

- Sustainable relationships with suppliers
- Integration of environmental factors in the supply chain
- Integration of social factors in the supply chain
- Responsible Contractual Agreement
- Policy on Local Sourcing & Suppliers
- Training, Monitoring in H&S for Suppliers and Sub-Contractors

BB3 Prevention of anti-competitive practices

- Anti-competition Issues**
 - Abuse of dominant position
 - Price-fixing
 - Rigging bids
 - Allocating products or markets
 - Limiting the manufacture or sale of a product or service
 - Dumping

Screens Corporate Governance

CG Corporate Governance

CG1 The Board of directors

- Chairman & CEO - Role and Status
- Board Balance - Executives and Independents
- Significant shareholders
- Appointment to the Board (Ensuring Board's Continuous Effectiveness)
- Size of Board
- Directors' training

CG2 Board structures and procedures

- Relationship of the Board to Management
- Quality of Information
- Access to information
- Access to Advice

CG3 Use of Board Committees

- Remuneration Committee (Determination of Directors' Remuneration)
- Directors' Remuneration
- Disclosure of Remuneration

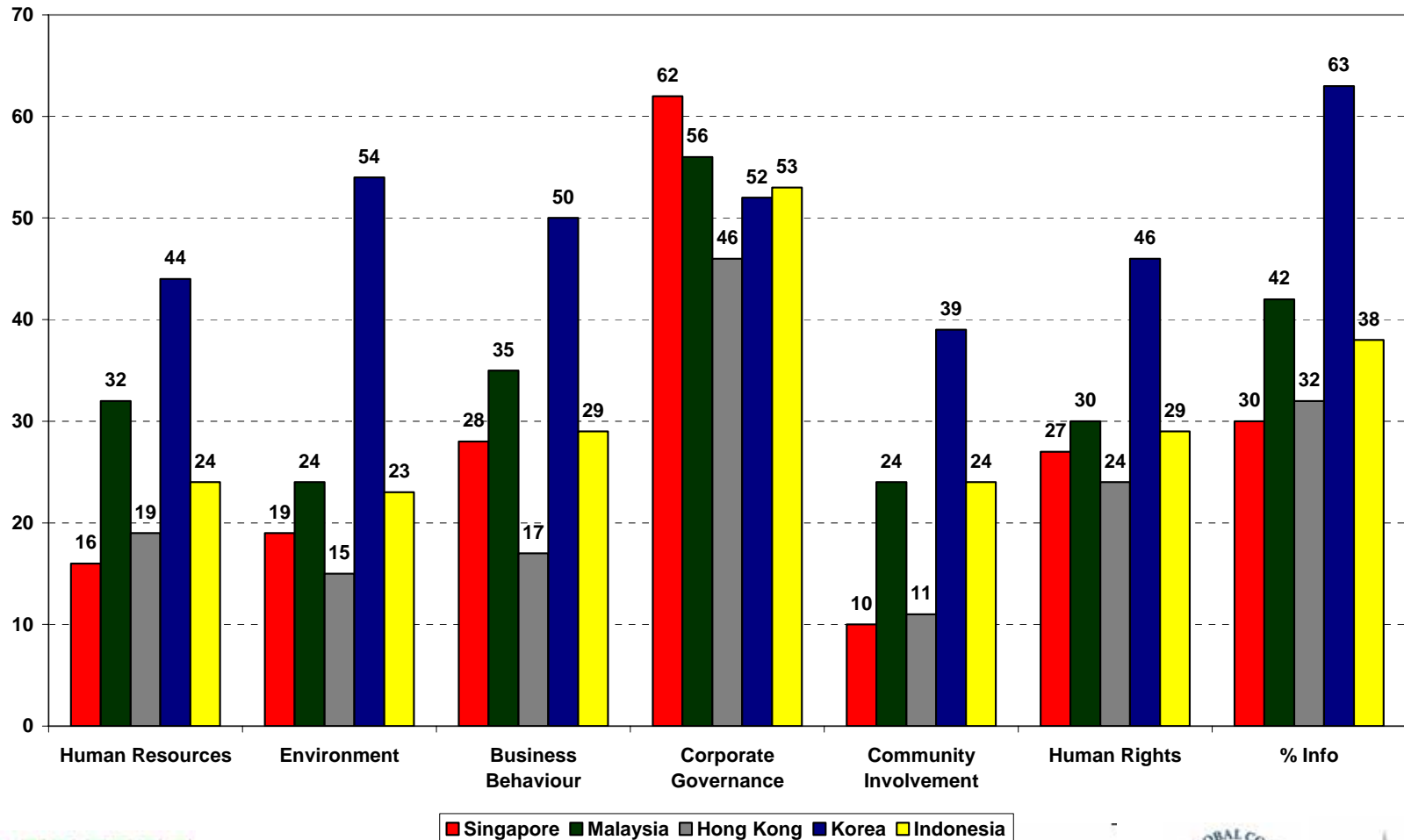
CG4 Shareholders Dialogue between Companies and Investors

- AGM Arrangements

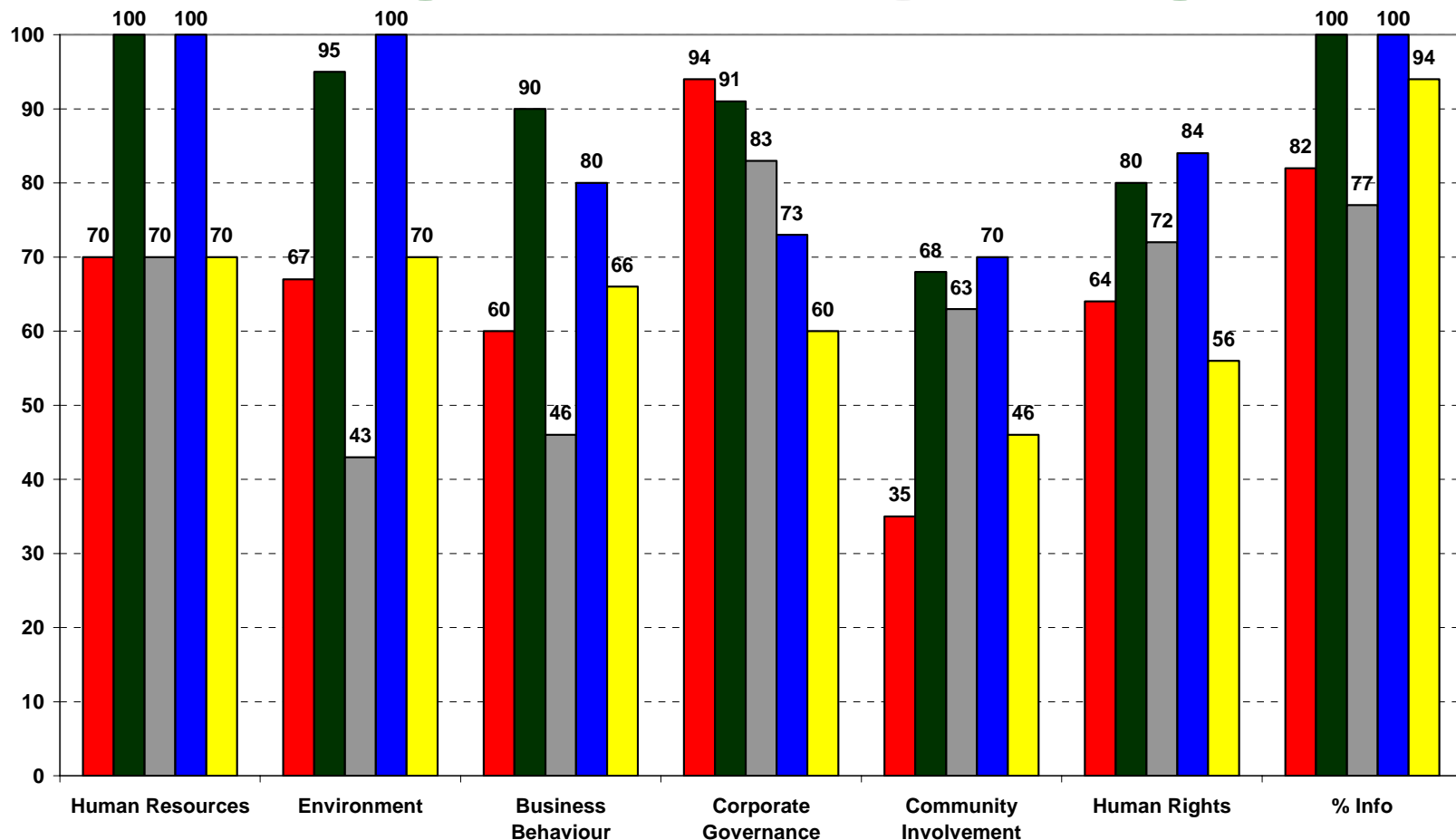
CG5 Accountability and Audit

- Internal Controls
- Corporate Social Responsibility
- Auditors
- Timely reporting
- Board Approval of Major Policy Positions

OWW Ratings: All Company Average Scores...

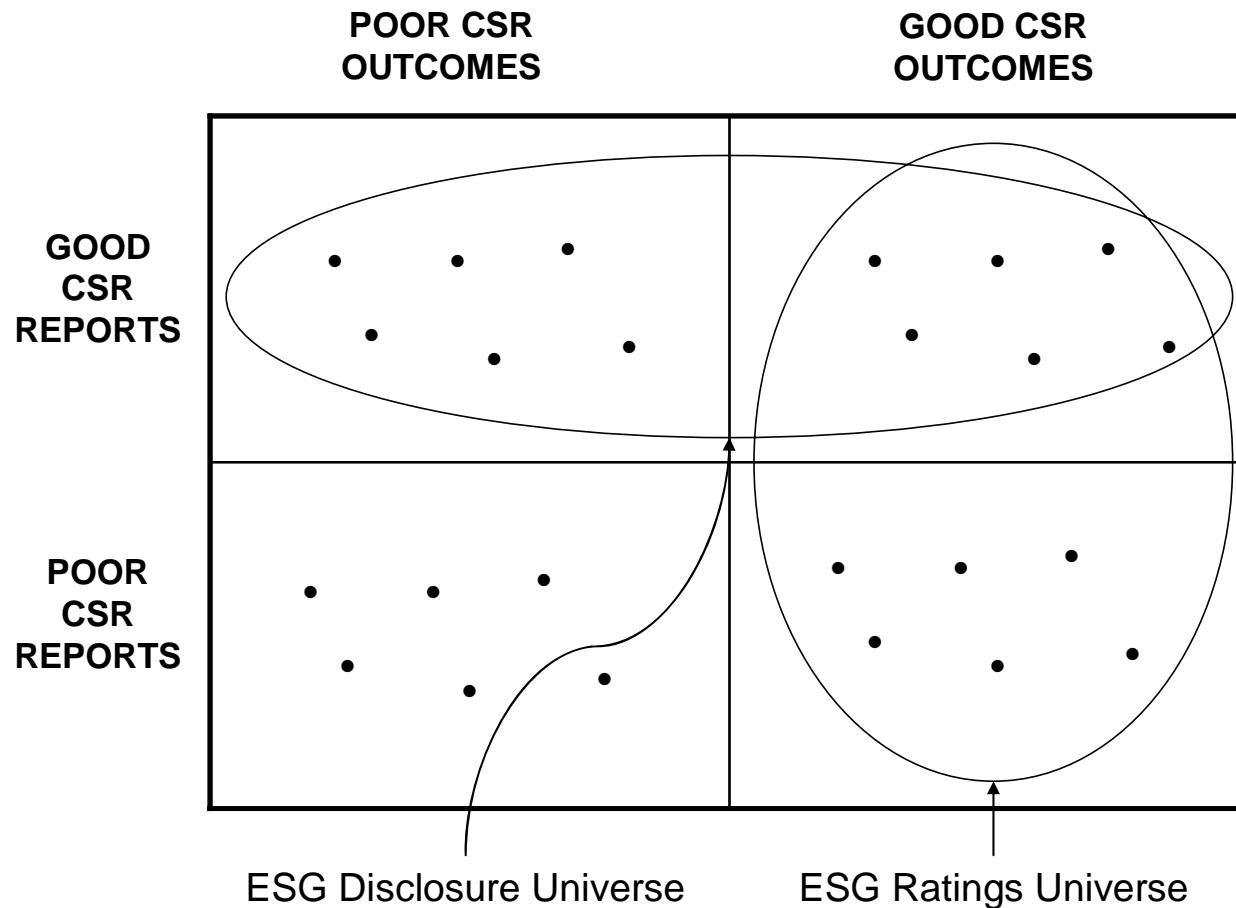


OWW Ratings: All Company Maximum Scores...



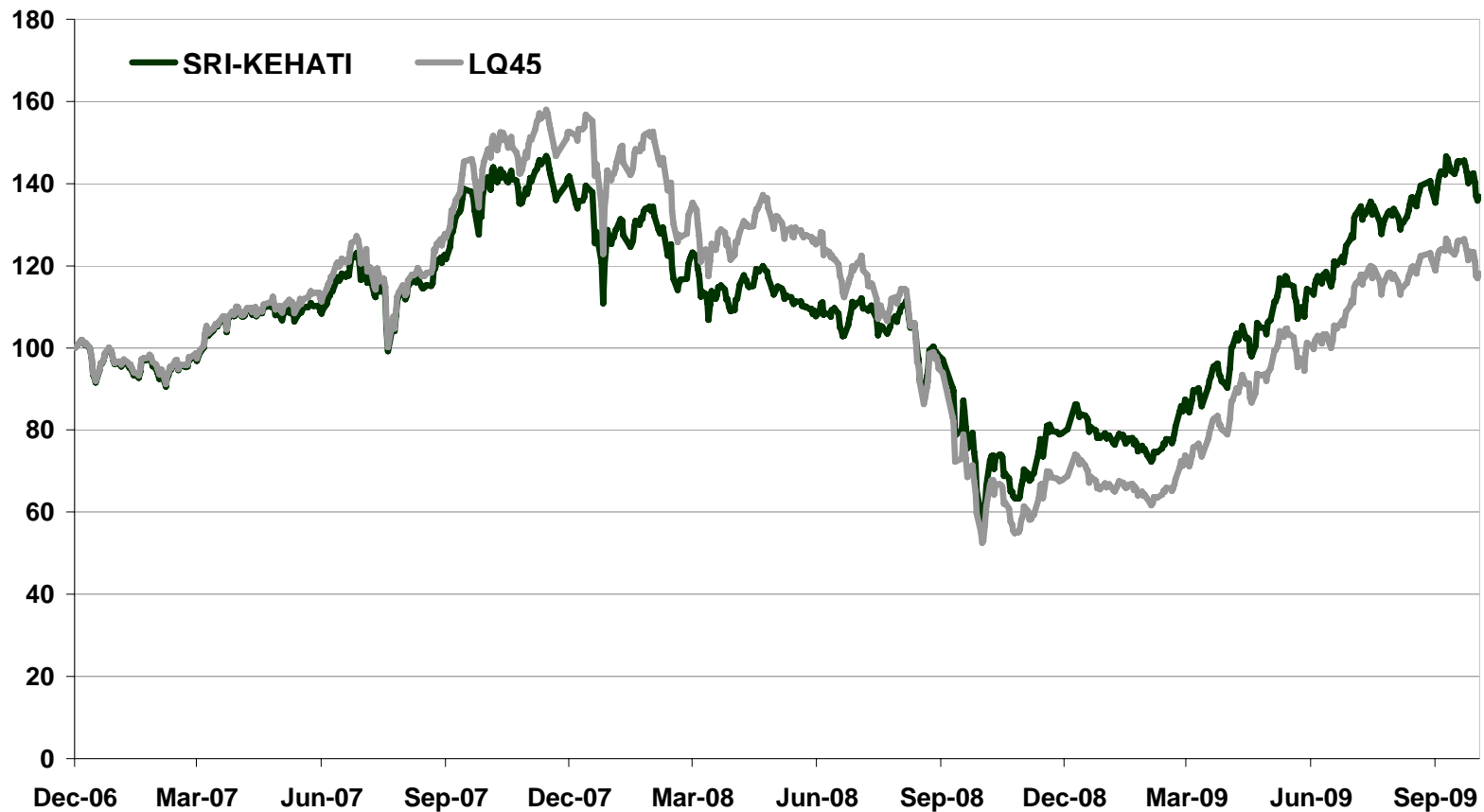
■ Singapore ■ Malaysia ■ Hong Kong ■ Korea ■ Indonesia

Ratings vs Disclosure



Performance of the Index

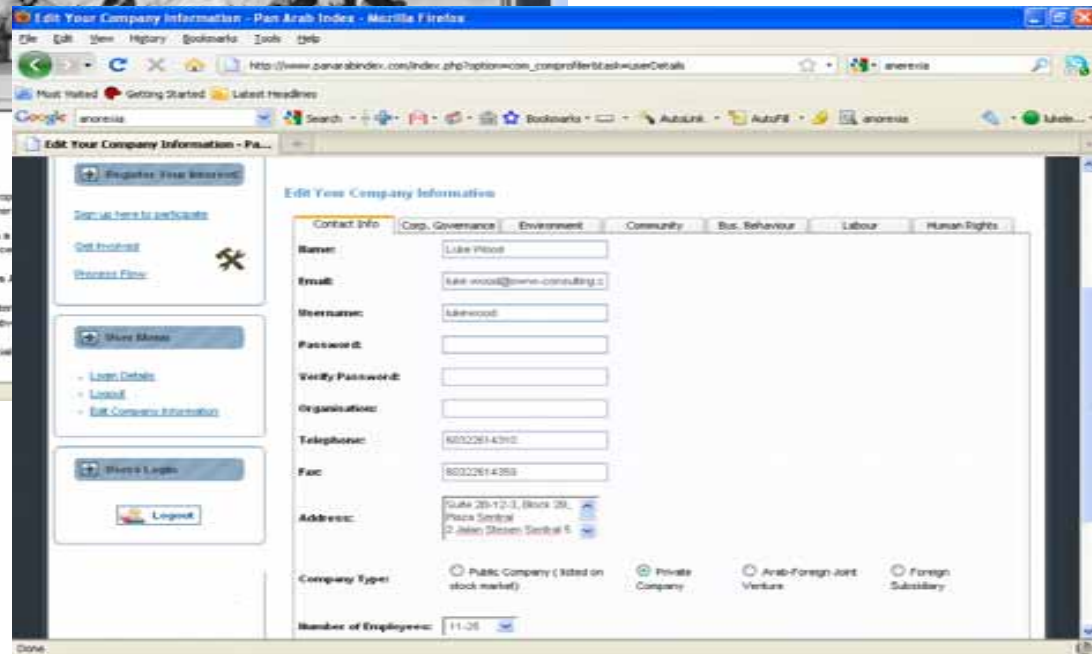
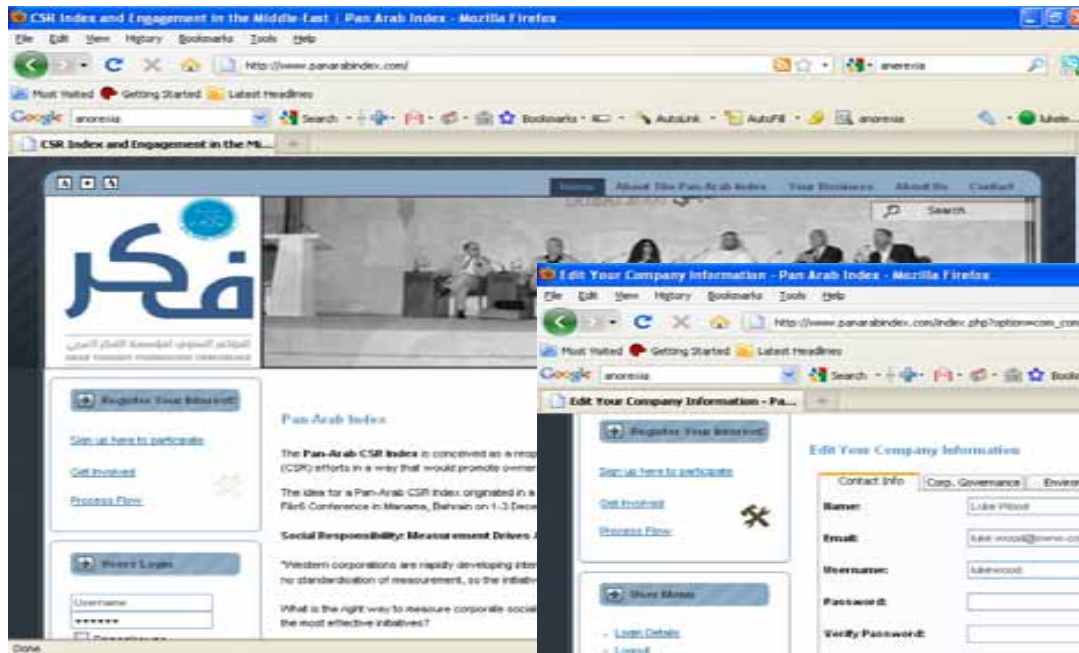
Pergerakan LQ45 Indeks dan SRI-KEHATI Index
Januari 2007 - 30 October 2009



Historical Performance

DATE	SRI-KEHATI		LQ45	PEAK-TROUGH
30-Oct-09	136.85		118.08	
28-Oct-08	55.58		52.57	Trough
11-Dec-07	146.68		158.00	Overall Peak
06-Oct-09	146.65		126.58	Post-crisis Peak
	148.39%		133.69%	Post-crisis Trough-Peak
	-62.11%		-66.73%	Crisis Fall (Peak-Trough)
	46.68%		58.00%	Pre-crisis max growth
	38.05%		22.86%	Growth since Jan 2007

The New Web-based Portal



The Academy of Responsible Management



“The Academy of Responsible Management aims to provide world-class training, research, resources and services to help companies develop sustainable business models that enhance performance through responsible management of their ethical, environmental and social impact.”

Questions & Answers

Thank you!

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