Asia ready to pick up the pace on corporate sustainability

SAM Corporate Sustainability Assessment Asia Progress Report 2019

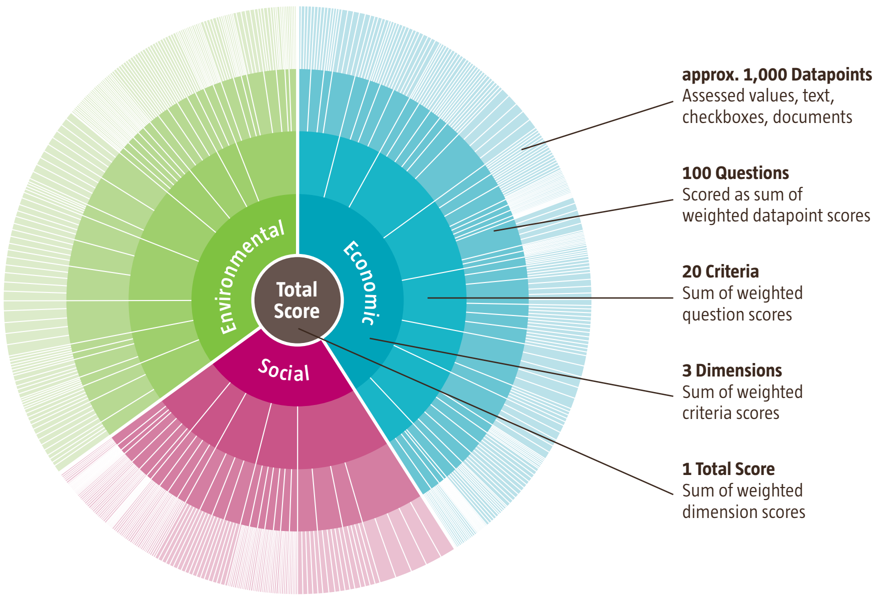
The SAM Corporate Sustainability Assessment (CSA)

Since 1999, RobecoSAM has been conducting the annual Corporate Sustainability Assessment (CSA), which serves as the framework for measuring corporate sustainability performance and forms the research backbone for the construction of the Dow Jones Sustainability Indices.

The world's 2,500 largest publicly traded companies are invited to participate in the CSA for possible inclusion in the DJSI World Index. Additional companies are invited to participate for the growing family of regional and country-specific sustainability indices.

Companies are evaluated on a range of financially-relevant sustainability criteria within three dimensions: economic, environmental, and social. Each company assessed receives a score between 0-100, and is ranked against other companies in their industry.

Illustration of the CSA process from approximately 1,000 datapoints per company, to one total score.



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RobecoSAM
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Executive Summary

The Asia Progress Report 2019 is an analysis of selected highlights from the SAM Corporate Sustainability Assessment (CSA). In total, 372 companies from Asia participated in the CSA. They are located across the following countries eligible for the Dow Jones Sustainability Indices (DJSI), based on their free-float market capitalization: China, Hong Kong, India, Japan, Republic of Korea ("South Korea"), Malaysia, Philippines, Singapore, Taiwan, and Thailand. With only one actively participating company, the Indonesia sample size is too small. Therefore, it is only referenced briefly in the areas of the report where assessment of non-actively participating companies is covered.

Thailand, Taiwan, and South Korea achieved the highest averages scores for the second consecutive year.

The results for this report focus primarily on companies from the invited universe in each country that have participated in the CSA by filling out the comprehensive online questionnaire the survey involves. The "invited universe" means those companies eligible for the DJSI.

Rising participation

Asian companies' rate of participation increased year-on-year, showing that more companies across the region are choosing to benchmark their sustainability performance.

Participation was mixed between countries. Thailand achieved the highest rate of participation (78%) in the region. Meanwhile, Japan had a high number of participating companies (158) due to a large invited universe, but its rate of participation was modest at 43%. Japan is second only to the United States in terms of the size of its invited universe, yet clearly participation could be better.

The lowest rates of participation were in China (6%) and Indonesia (5%). That said, the number of participating companies in China doubled, from six to 12.

Asia maintains good average scores for sustainability management

Sustainability management across Asia has not faltered compared to the 2018 CSA results. From a regional perspective, for a second consecutive year, Asia maintains its position ahead of both Latin America and North America based on the average Total Sustainability Score ("score") for each region. Asia scores 57, compared to 52 for Latin America and 51 for North America.

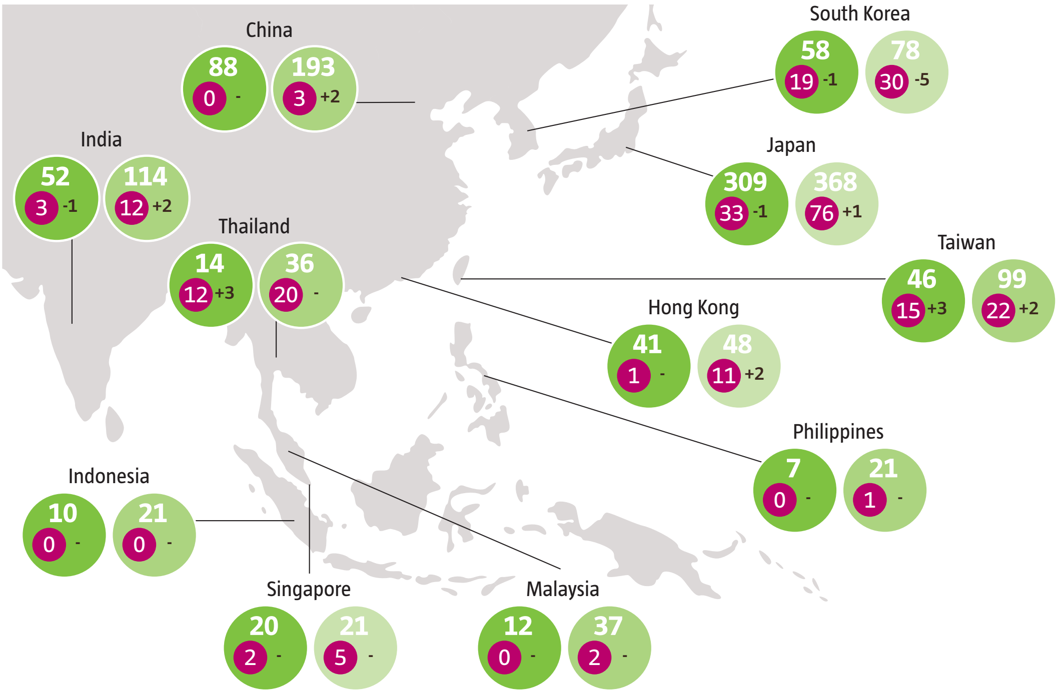
Within Asia, seven of the ten countries in focus have either seen their average score rise or remain stable. Thailand, Taiwan, and South Korea achieved the highest average scores for the second consecutive year.

Figure 4, which presents the distribution of scores per country, shows that Thailand is once again home to the company with the highest score (92) in Asia. It also has the best scores for its top 50% compared to the top 50% of the other Asian countries. Japan has a very wide distribution of scores, including a firm that only achieved 5 points, the lowest score. A year ago, a firm from South Korea was the lowest scoring across Asia, but South Korea's lowest score has now risen to 18.

China and Malaysia share similar profiles: a relatively small distribution of scores and a low number of companies participating.

Figure 5, which combines the assessed results of companies that are non-active participants in the CSA with those that do participate, shows that the highest scores in every country consistently come from companies that actively participate. Meanwhile, the lowest scores come from the non-participating companies assessed solely through their publicly available information. This underlines the significance of the disclosure and transparency throughout the CSA process.

Figure 1: Asia's DJSI representation mainly stable



DJSI World:	DJSI Emerging Markets:	DJSI Asia Pacific:
Number of companies invited in 2019	Number of companies invited in 2019	Number of companies invited in 2019
Number of index members	Number of index members	Number of index members
+/- Change in number of index members compared to 2018	+/- Change in number of index members compared to 2018	+/- Change in number of index members compared to 2018

The Invited Universe includes companies that are double listed on the stock exchange.

Source: RobecoSAM

Asia's representation in the DJSI World

For most countries that are home to firms in the DJSI World Index, their number of companies remained stable. Over 10% of the DJSI World constituent companies in 2019 are Japanese – 33 companies out of the 318 index constituents. Thailand has the highest percentage of companies in the DJSI World, with 12 of its 14 eligible companies achieving a place in the index. The countries not represented at all in the DJSI World are China, Indonesia, Malaysia, and the Philippines.

Performance has been particularly positive in the Economic and Social Dimensions of the CSA.

Environmental, Economic, and Social Dimensions

The average regional scores and average country scores show that actively participating Asian companies have in general maintained their level of commitment to sustainability management over the past year. Their performance has been particularly positive in the Environmental and Social Dimensions of the CSA. In the Social Dimension Asia scores above the global average, while in the Environmental Dimension Asian companies are just below the global average.

Economic Dimension

In the Economic Dimension, Asian countries score above the global average for the criteria of Materiality, Information Security / Cybersecurity & System Availability, Tax Strategy and Risk & Crisis Management. The lowest average score for Asian companies is for the Corporate Governance criterion.

The CSA's Corporate Governance questions focus on board structure, composition of the board and related committees, board effectiveness, and measures to ensure alignment with shareholders' long-term interests, which include transparency, the structure of executive remuneration, and share ownership requirements. Asian companies on average score 38 for Corporate Governance, compared with a global average of 53. Encouragingly, each Asian country has improved its average Corporate Governance score over the past year.

Part of the reason for Asian companies' low Corporate Governance scores is their weaker performance for the questions on Executive Compensation – Alignment with Long Term Performance, in which they score an average of 9, compared with the global average of 28, and Gender Diversity, in which they score 14 versus a global average of 43.

Environmental Dimension

Asia performs well on the three general (cross-industry) criteria in this dimension. These are Climate Strategy with a score of 66 for Asia vs. 61 globally; Operational Eco-Efficiency with a score of 60 equal to the global score; and Environmental Reporting, the highest score of the three at 77, compared to 72 globally.

It is on the more industry-specific topics such as Water Operations, Fuel Efficiency, Raw Material Sourcing, and Low Carbon Strategy where Asia scores below the global average.

With the highest score across all the criteria, Environmental Reporting is covered by this report. While disclosure levels are increasing overall, the quality of Environmental Reporting still varies significantly around the world. The good news for Asia is that companies across the region are doing well in this respect, with scores rising in China, the Philippines, South Korea, Singapore, and Thailand, while scores for Hong Kong, and Japan remained stable. Moreover, Asia scores above the global average in the three questions on Environmental Reporting (Coverage, Assurance and Quantitative Data).

Social Dimension

Social sustainability factors are material issues for many industries, and their management is directly linked to companies' reputation and brand equity. Once again, while disclosure is increasing, reporting levels vary around the world.

Asia performs above the global average on all six of the general criteria: Corporate Citizenship & Philanthropy where the score of 70 vs. the global average score of 66 is highest than across the other criteria which are; Human Capital Development (53 vs. 52); Labor Practice Indicators (59 vs. 57); Human Rights (39 vs. 35); Social Reporting (67 vs. 63); and Talent Attraction & Retention (51 vs. 49). In addition, performance on the industry-specific topics is generally above the global average. These include, Financial Inclusion, Occupational Health and Safety, and Social Impacts on Communities.

This report focuses on the general criterion Labor Practice Indicators. The rationale for its inclusion in the CSA is that employees are one of a firm's greatest assets, so good working relations, safe and healthy work environments, and fair treatment are all critical factors.

Countries in Asia perform well in general on this criterion, with the average score of 59 for the region above the global average of 57. Thailand has the highest score at 78, followed by South Korea (68) and Taiwan (66). In total, six of the ten countries increased their scores for this question over the past year, and only Malaysia saw a large fall.

Asia is on a par with, or above the global average for all three aspects of this question: Diversity (at management level), Equal Remuneration and Freedom of Association.

In conclusion, Asian companies' performance in terms of sustainability management remains strong. In some aspects they have kept pace with their global peers, and in others they are performing better than companies from other regions. The result is that overall the region is behind only Europe, which has long been recognized as the most advanced area of the world when it comes to sustainability management.

However, progress on sustainability management is not moving fast. Companies across the region can be encouraged by their solid performance overall, but for those countries with lower participation and weaker results there is much to learn from their neighbors.

Introduction

"Asia is experiencing a breakthrough in responsible investment and corporate engagement, which have become mainstream across the continent. Japan, which is leading the practice, has a virtuous circle involving the government, corporates and investors with regard to integrated reporting of financial and non-financial information. Singapore and Hong Kong are worth having a closer look at in how they are evolving to internalize responsible business practices and reporting. South Korea is also exploring opportunities to increase ESG reporting, which would contribute to responsible investment."

This insight from the Korea Productivity Center (KPC) provides a snapshot into the current status of the management of ESG (Environmental, Social, and Governance)-related issues across Asia, which is further explored in this Asia Progress Report 2019.

Having raised the bar every year since 1999, the SAM Corporate Sustainability Assessment (CSA) is continuously enhanced to identify and measure under-researched and under-reported financially material ESG factors. As a result, it continues to detect those companies that are best positioned to address future sustainability-driven challenges and opportunities. This report explores these challenges and opportunities across Asia.

Asia is experiencing a breakthrough in responsible investment and corporate engagement, which have become mainstream across the continent.

The SAM Asia Status Report 2018 revealed that Asian companies outperformed the global average in many aspects of sustainability management. However, it was also noted that there was room for improvement, both in specific aspects of ESG performance and overall.

This new report provides an update by analyzing selected ESG practices among companies across Asian countries using results from the 2019 CSA.

In total, 372 companies took part in the CSA. These were from China, Hong Kong, India, Japan, Philippines, South Korea, Malaysia, Singapore, Taiwan, and Thailand. Indonesia is excluded due to only one participating company.

With around 1,000 datapoints per company there is much information to draw upon, so the report focuses on significant strengths and weaknesses in certain aspects of sustainability selected from across the CSA's three Dimensions: Economic, Environmental and Social. It also explores how each country may have progressed compared with its peers across the region and considers whether sustainability management in Asia has progressed over the past year and relative to other regions.

Overall Results – Asia

Participation across Asia rises over the past year

Looking at the invited universe of companies invited to participate in the 2019 CSA and the rate of participation across Asia there are some positive signs. The number of companies participating rose from 327 to 372, a significant increase bearing in mind that the invited universe only grew very slightly, up from 1,165 to 1,169.

Table 1: Participation rates rise in most countries

	Number of invited companies	CSA Participation rate
China	193 ↑	6% ↑
Hong Kong	49 ↑	47% ↑
India	114 ↑	31% ↑
Indonesia	21 ↑	5% ↑
Japan	369 ↓	43% ↑
Malaysia	37 ↓	32% ↑
Philippines	21 –	43% ↑
South Korea	204 ↑	24% –
Singapore	26 –	42% ↑
Taiwan	99 ↑	35% ↑
Thailand	36 ↑	78% ↓

The arrows ↓↑ indicate the year-on-year change between 2018 and 2019.

Source: RobecoSAM

Thailand was the only country where the participation rate dropped. While it remained stable in South Korea; in all other countries participation rates rose over the year. This is attributable to companies proactively choosing to benchmark their sustainability performance. Thailand's participation rate only fell slightly, from 81% to 78%, so its participation rate was still higher than any other Asian country in 2019.

Looking in more detail at the year-on-year differences by country, Japan still had the highest number – 158 – of companies participating, partly because its invited universe is by far the largest in the region. Its participation rate was a modest 43%: the same level as the Philippines, just above Singapore's 42%, but below Hong Kong's 47%.

At the opposite end of the spectrum, after Indonesia with only one participating company, China and Malaysia had the fewest participating companies at 12 each (up from six in 2018 for China and up from five for Malaysia). China had the second-lowest and Malaysia the third-lowest participation rate of all the countries.

Table 2: Market capitalization of assessed and actively participating companies in the CSA 2019

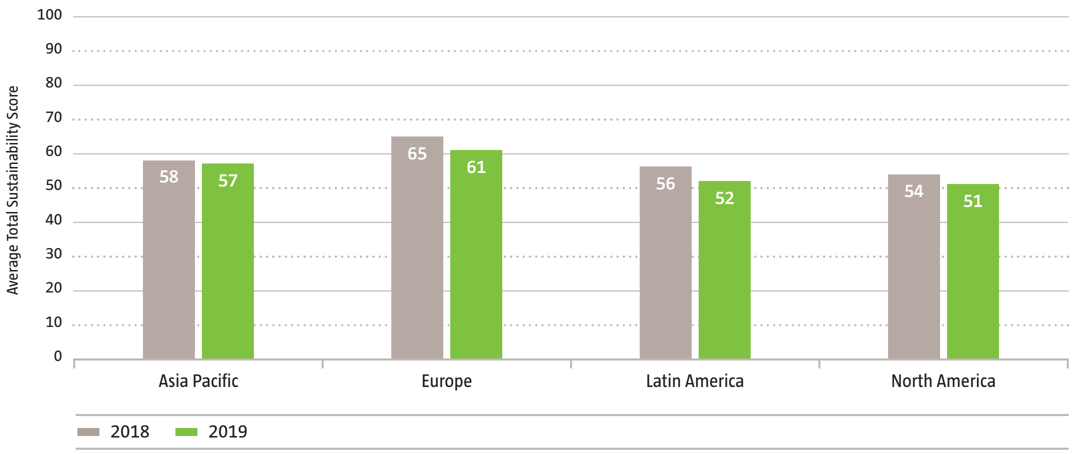
	All assessed companies (% of market cap)	Actively participating companies (% of market cap)
China	79	13
Hong Kong	89	52
India	84	51
Indonesia	63	15
Japan	88	50
Malaysia	65	28
Philippines	65	60
South Korea	86	39
Singapore	88	76
Taiwan	96	55
Thailand	100	85

Source: RobecoSAM

Average sustainability performance by region

The average sustainability score for Asia Pacific[1] companies has been more stable than for companies from other regions over the past year, with a small drop from 58 to 57. European, Latin American, and North American firms have all experienced more significant declines in their average scores. Asian companies' average sustainability score was higher than those from Latin America and North America in 2019, as was the case the previous year.

Figure 2: Average Asia ESG score consistent over the past year

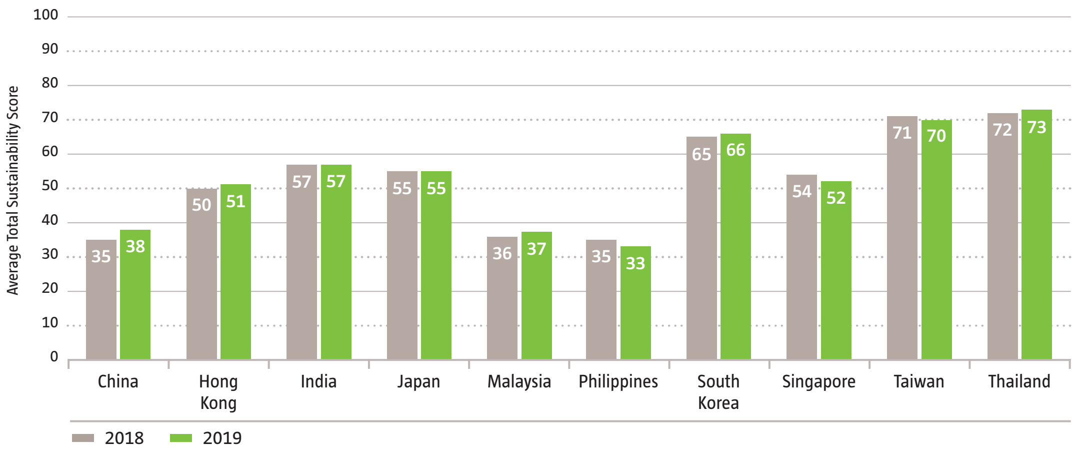


Source: RobecoSAM

There is a similar picture on a country-by-country basis in Asia. For seven of the ten countries, the average score rose or remained stable over the year. Scores fell by only 2 points in the Philippines and Singapore and by 1 point in Taiwan. While there was little progress in terms of sustainability made over the year, there were also no major backward steps.

As was the case last year, the highest average scores again came from Thailand (73), Taiwan (70), and South Korea (66). The lowest average scores come from companies in the Philippines (33), Malaysia (37), and China (38). On a positive note, China's score rose the most over the year, reflecting the increased efforts of the small group of Chinese companies that participated to improve their sustainability performance.

Figure 3: Scores by country are relatively stable over the past year



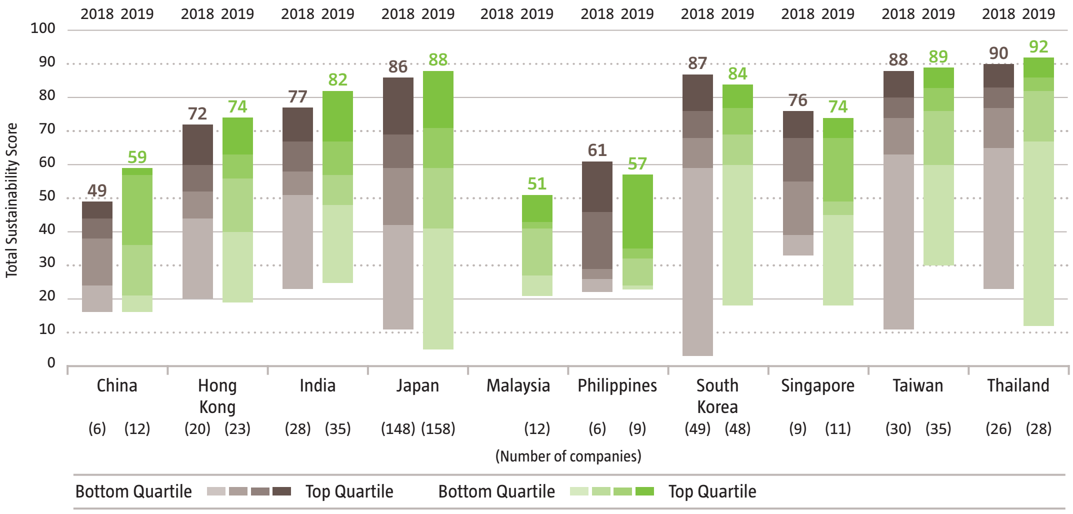
Source: RobecoSAM

[1] In figure 2 the region Asia Pacific also includes Australia, Macao, New Zealand and the United Arab Emirates. Nevertheless, the average scores for 2018 and 2019 remain the same when these additional countries are not considered.

Distribution of Scores
Thailand is home to the highest-scoring companies

The following box-plot chart provides further insight into the sustainability performance of each country[2] in 2018 and 2019 by showing the distribution of the actively participating companies. Each bar of the chart shows the distribution of scores within the respective country, with the darkest shaded box representing the top quartile of scores, and the lightest shaded box being the bottom quartile of scores. The middle line between the top two quartiles and the bottom two quartiles is therefore the median score.

Figure 4: Score distribution of actively participating companies



Source: RobecoSAM

Thailand is home to the company with the highest score in Asia – 92 points – for the second consecutive year. The lowest-scoring company in Thailand achieved just 12 points, giving Thailand a wide distribution of company scores relative to other countries, particularly within the bottom quartile.

Thailand also has the best scores for its top 50% of companies, which are close together, between 82 and 92 points. This is similar to 2018, although the scores are slightly higher this year. Based on this sample of companies, this shows that sustainability management is rather mixed at the lower end of the scale in Thailand, while at the top end a smaller number of companies are in close competition for the top score.

The chart also shows that Japan's large number of participating companies are well spread out in terms of scores. Japan has the third-highest score of 88 but also the lowest performance in the region, with one company only scoring five points. This is the widest score distribution of any country.

In 2018, the lowest score – just three points – was from a company in South Korea. This year, the lowest-performing company in South Korea achieved 18 points, although the country's best score fell from 87 to 84 points.

China and Malaysia have similar profiles, with relatively small distributions of scores, although for China there has been an impressive increase in the scores of the top 25% of companies: last year they scored between 44 and 49, rising to between 57 and 59 in 2019.

The Philippines also has a relatively small distribution of scores, but the largest distribution of top quartile scores ranging from 35 to 57.

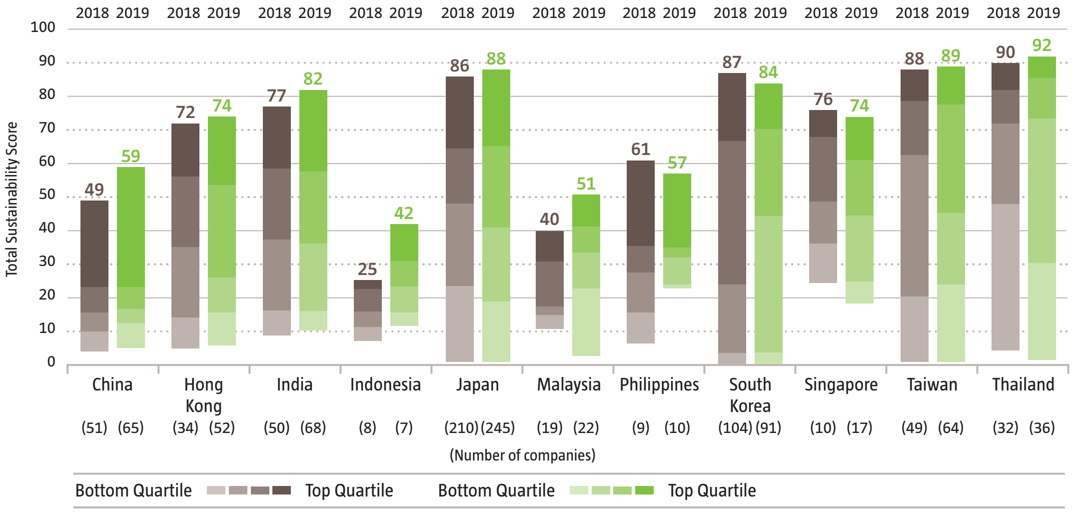
When it comes to median scores, Thailand is again in the lead, followed by Taiwan and South Korea.

[2] The first box plot chart and corresponding commentary do not include Indonesia, which only had one actively participating country. Similarly, there are no 2018 figures for Malaysia in the first box plot, due to the small number (5) of participating companies. The second box plot includes Indonesia, where there were 7 and 8 non-participating companies in 2018 and 2019 respectively.

Non-participating companies have lower overall scores

The following chart shows the difference in distribution of scores when non-participating companies, which are only assessed based on public information, are combined with firms that actively participate in the CSA.

Figure 5: Score distribution of all assessed companies



Source: RobecoSAM

Combining these two groups results in wider distributions of scores, which is consistent with other regions and the same as last year. It's interesting to note that the wider distributions are due to lower scores in the bottom quartile across all Asian countries, while the top scores remain exactly the same. Put simply, actively participating companies consistently have the highest scores in each country. For eight of the countries, inclusion of non-participants in the CSA reduces the median score.

The lowest score for each country falls significantly and comes from a non-participating company when combined with companies that actively participated in the CSA.

For three countries where the best scores in the bottom quartile were 60 or higher, the non-participating countries' worse sustainability performance has a significant impact: in South Korea the highest score in this quartile drops from 60 to 4, in Thailand it drops from 67 to 30, and in Taiwan it drops from 60 to 24.

With the exception of Japan and Thailand, active participants' lowest scores are above 15. However, considering all assessed companies, only India, Indonesia, the Philippines, and Singapore achieve a score in double-figures for their lowest score. For all other countries, the lowest score is in single figures, and this score is attributable to a non-participating company.

Asian countries DJSI membership remains stable

The best-represented Asian country in the flagship DJSI World Index is Japan, partly due to its large invited universe. Of the 158 Japanese companies participating in the CSA, 33 achieved a place in this index, which in 2019 had 318 components. This meant that Japanese companies accounted for over 10% of its constituents.

For most countries that are home to members of the DJSI World Index, their number of constituents remained relatively stable over the year. Thailand and Taiwan both had three more companies join the index, with Thailand standing out in particular for having 12 of its 14 participating companies eligible for inclusion in the DJSI World achieving a place. This is a better ratio than for any other country in Asia.

More than 10% of DJSI World constituents in 2019 are from Japan, while China, Indonesia, Malaysia, and the Philippines have no members in the index.

The countries which are still not represented in the DJSI World are China, Indonesia, Malaysia, and the Philippines.

Publicly listed companies from Japan, Hong Kong, Singapore, and South Korea that meet the market capitalization requirements are eligible for inclusion in the DJSI Asia Pacific. Japan has 76 DJSI Asia Pacific members, more than any other country analyzed in this report.

For the DJSI Emerging Markets, the publicly listed companies in Asia meeting the required market capitalization come from China, India, Indonesia, Malaysia, Taiwan, Thailand, and the Philippines. This index is the only one in which China is represented; it has three companies. India and Taiwan gained two additional index members in 2019. For all other eligible countries, their representation in the DJSI Emerging Markets has not changed over the past year.

Economic, Environmental, and Social Dimensions

This chapter looks at the sustainability performance of Asian companies relative to those from other regions, and also by country in the three Dimensions addressed by the CSA: Economic, Environmental, and Social. In each of these Dimensions there is a spotlight on particularly topical criteria, highlighting achievements of note, or where there is opportunity for companies to overcome challenges and catch up with their peers in other countries and regions.

Economic Dimension

Altogether, there are 28 criteria within the CSA's Economic Dimension, although only five are "general", meaning they are relevant to all industries and therefore must be addressed by all participants. These are **Codes of Business Conduct, Corporate Governance, Materiality, Policy Influence,** and **Risk & Crisis Management.**

Corporate Governance is addressed in detail within this report as a general criterion and also for its importance in ensuring that companies are managed in the interests of shareholders. Asia scores lower for Corporate Governance than for the other general criteria, so it is a notable criterion to explore.

The criteria, both general and industry-specific, in which Asia scores above the global average are **Materiality, Information Security & Cybersecurity, Tax Strategy,** and **Risk & Crisis Management.** Asian companies score below the global average on **Codes of Business Conduct,** however it is also where they score best.

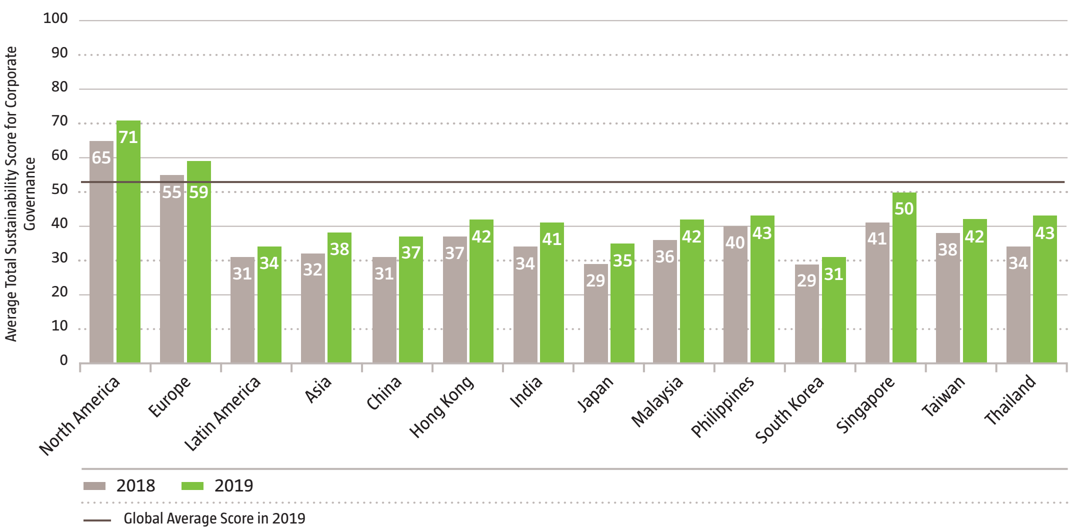
Corporate Governance

The CSA Corporate Governance questions focus on board structure, composition of the board and related committees, board effectiveness, and measures to ensure alignment with shareholders' long-term interests, which include transparency and the structure of executive remuneration as well as share ownership requirements.

For this criterion, the global average score is 53, far higher than Asia's average score of 38. All the countries in Asia have underperformed the global average, both this year and last, when the average global score was 47. However, in each Asian country the score has improved over the past year, following the global trend.

Singapore's average score of 50, up from 41 last year, is closest to the global average, while the lowest average score came from South Korea for the second consecutive year. Both Thai and Singaporean companies also showed good improvements on this criterion.

Figure 6: All countries score below average for Corporate Governance



Source: RobecoSAM

Looking at sustainability performance across all the Corporate Governance questions, companies in Asia are in line with those from elsewhere, performing best on the questions, **Family Ownership** (score 90), **Government Ownership** (score 84), and **Dual Class Shares** (score 94) questions.

However, Asian companies score better than the global average for only one question: **Disclosure of Median or Mean Compensation of all Employees & CEO Compensation,** in which their average score of 58 is well above the global average of 50.

Asian companies score least well compared with the global average for the questions on **Non-Executive Chairman/Lead Director,** with a score of 23 versus the global average of 52; **Gender Diversity** with a score of 14 versus the global average of 43; **Executive Compensation – Alignment with Long-Term Performance,** with a score of 9 versus the global average of 28; and **Management Ownership Requirements,** with a score of 1 versus the global average of 19.

Interestingly, for the **Diversity Policy** question, the average score in Asia is 40, compared with the global average of 51, yet for **Gender Diversity** the gap is much larger. Asia's score is 14, far below the global average of 43. This indicates Asian companies are falling behind in the execution of their diversity policies.

Asian companies' average Gender Diversity score is far lower than the global average, whereas they score better on Diversity Policy, suggesting they are failing to execute their policies properly.

Below, Gender Diversity, Diversity Policy, and Executive Compensation are examined in further detail, in part due to the interesting results, and also because these areas are highly topical issues that are relevant to stakeholders both inside and outside of any company.

Gender Diversity

Companies around the world face sustained pressure to improve the gender balance of their boards. Here companies are asked to report the number of women on their board of directors or supervisory board and to specify whether this information is available in public reporting or the corporate website.

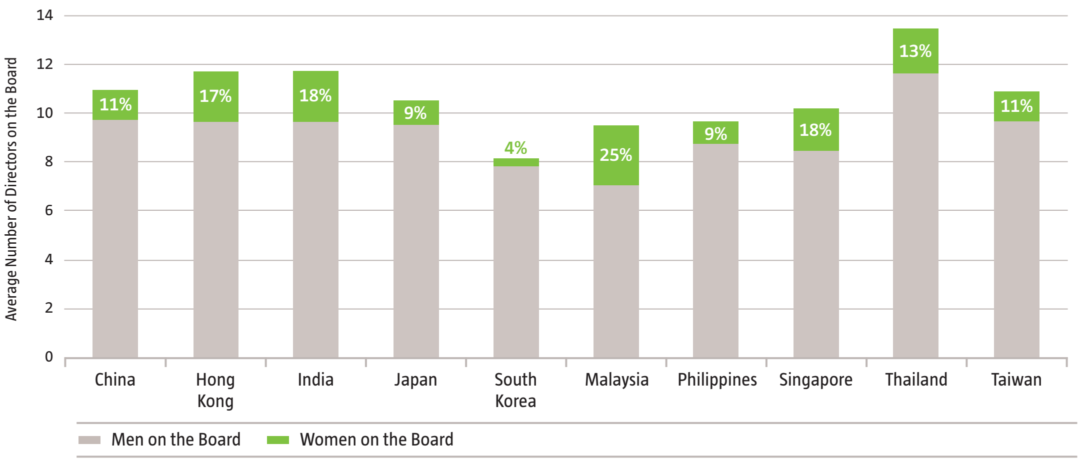
Asian companies are increasing their board diversity overall – only in Malaysia, Taiwan, and the Philippines did the score fall over the year. Even though Malaysia's score fell from 45 in 2018 to 43, its score was still far higher than any other country in Asia, in both years. Some other countries that have seen improvements in board diversity still have very low scores: for example, Japan scores 8 and South Korea scores 3.

The biggest improvements in score over the year came from India, Singapore, and China.

In summary, Asian companies have improved in this aspect over the past year, but their overall performance is poor, underscored by the fact that almost 200 companies out of the 372 actively participating in the CSA had a score of zero – which means they did not have a single female board member.

The following chart shows the composition of boards across each of the countries. Again, Malaysia leads the way, with on average 25% of board members being female. That said, this is in the context of the relatively small number of participating companies – just 12 in Malaysia. In Japan, which has a large invited universe and 158 participants, only 9% of board members are female.

Figure 7: Most Asian countries' board composition is less than 20% female



Source: RobecoSAM

Diversity Policy

This question asks, "Does your company have a formal, publicly available board diversity policy that clearly requires diversity factors such as: Gender; Race, ethnicity, or country of origin; nationality or cultural background in the board nomination process?" Asian companies scored higher here than for the partly-related question of Gender Diversity.

The three aspects of the question provide further insight into which aspects of diversity companies deem to be the most important, based on the number of times each is mentioned by companies in their Board Nomination Policies.

A total of 172 companies refer to gender in their board nomination policy. Nationality, country of origin, or cultural background are mentioned by 114 companies, while 80 companies refer to race, or ethnicity.

While gender is most frequently referred to, under half of Asian companies participating in the CSA addressed gender, while even fewer consider the issues of race, ethnicity, nationality, and the other aspects covered within this question.

Overall, Asian responses to this question reflect those in other regions: gender comes first, but there is room for improvement for all elements of diversity.

Table 3: Number of times diversity factors are addressed by the 372 participating companies in Asia

	Number of Times Covered in Companies' Board Nomination Policy
Gender	172
Nationality, country of origin or cultural background	114
Race or Ethnicity	80

Source: RobecoSAM

Executive Compensation

The two lower-scoring questions related to Executive Compensation are **Executive Compensation – Success Metrics** and **Executive Compensation – Alignment with Long-Term Performance.**

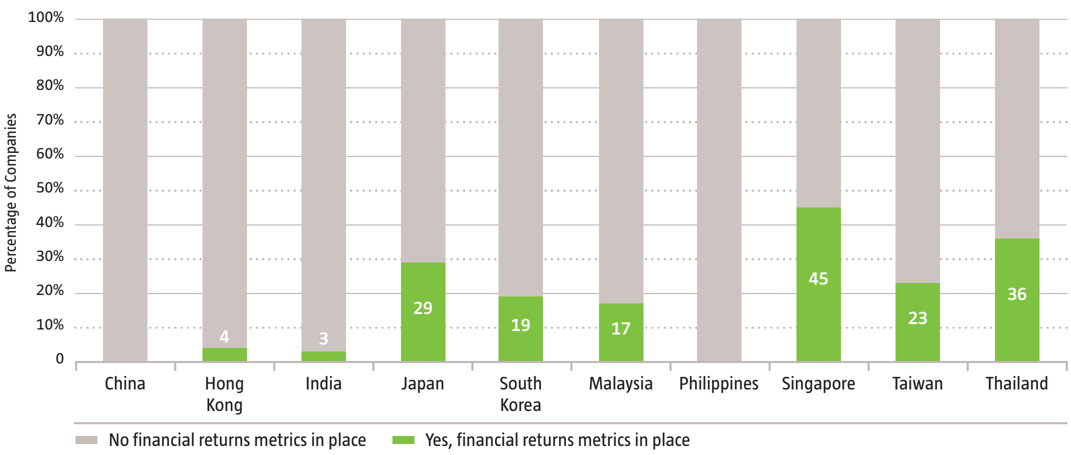
Looking first at Success Metrics, the question asks specifically if both financial metrics and relative financial metrics are in place to define the CEO's variable compensation. With an average score of 15, Asian companies score well below the global average of 39, and scores fell over the year in every Asian country except Japan.

Asian companies do not perform well for Executive Compensation – Success Metrics.

Altogether, 275 companies scored zero on this question. Sixteen firms scored 100. They came from Hong Kong, Japan, South Korea, Singapore, Taiwan, and Thailand. Singapore had the highest score in Asia at 32, although this score was almost 25% lower than the previous year and is now at almost the same level as Thailand's score of 30, down from 31 last year.

Looking at the first aspect of the question in figure 8, Singapore performs best for compensating CEOs based on financial returns metrics, which include return on assets, return on equity, and/or return on capital invested. Such metrics are used by 45% of Singaporean companies, while companies from China and the Philippines do not use these metrics at all.

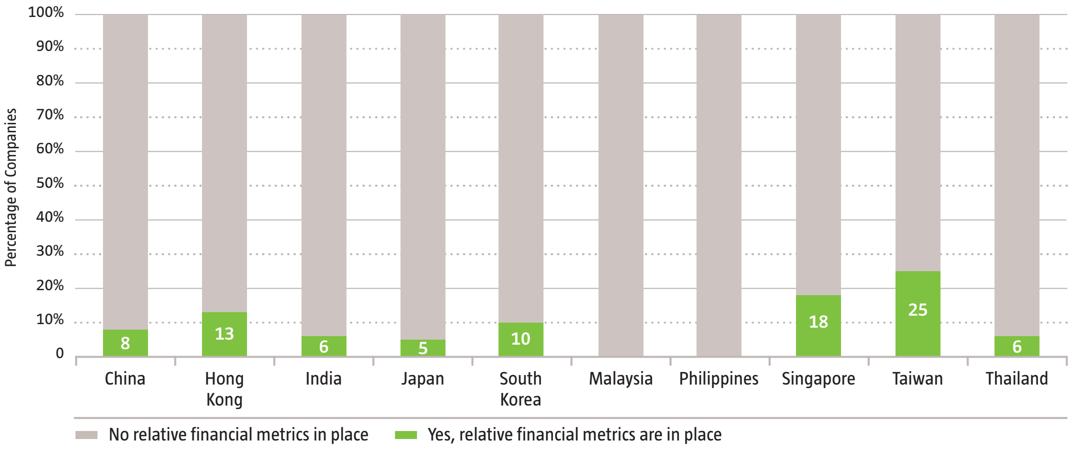
Figure 8: Proportions of Asian companies that use financial metrics in determining executive compensation



Source: RobecoSAM

Figure 9 shows how many Asian companies use relative financial metrics, with which firms compare themselves against their peers using measures such as total shareholder return, growth etc. Here there is a weaker picture overall. Taiwan leads the way but with only 25% of companies using such metrics. Malaysia and once again the Philippines have no relative financial metrics in place.

Figure 9: Proportions of Asian companies that use relative financial metrics in determining executive compensation



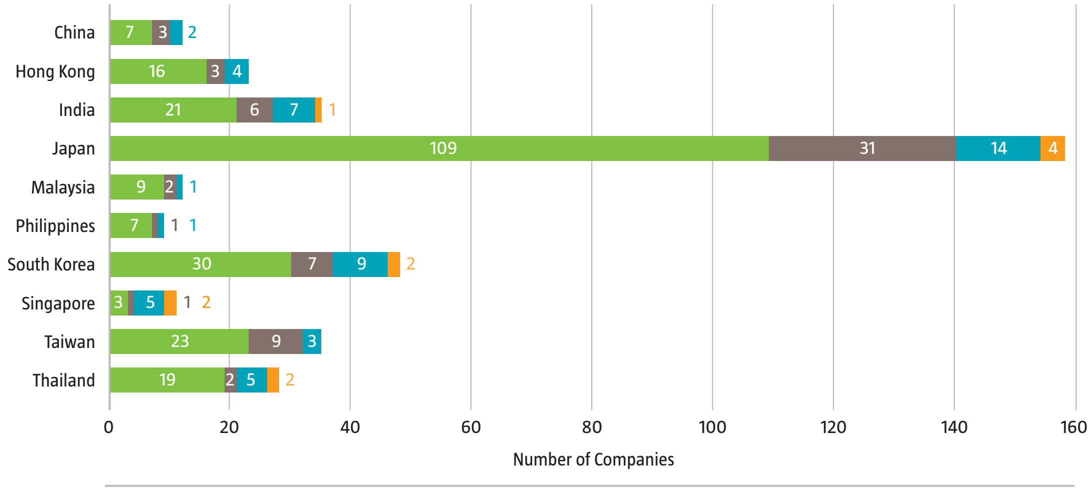
Source: RobecoSAM

The results from the two aspects of this question on Executive Compensation – Success Metrics indicate some small but important differences in the way companies measure their CEOs variable compensation against company success.

Few companies have relative financial metrics in place to define their CEOs variable compensation.

The **Executive Compensation – Alignment with Long-Term Performance** question asks participants if their company has guidelines in place about deferred bonuses, time vesting, and the performance period for the CEO's variable compensation. As with the previous question, all countries scored below the global average of 28. With the exception of Singapore, with 26, the scores were no higher than 12 points. Among the low scorers only China, India, Japan, and Taiwan slightly improved their scores over the year.

Figure 10: Most companies do not align executive pay with long-term business performance



Source: RobecoSAM

The conclusion from these questions is that defining the CEO's variable compensation in a transparent manner is an area of weakness for many Asian firms relative to companies elsewhere in the world.

Companies focused on reporting on and improving disclosure of executive compensation will fare better in terms of improving their corporate reputation among all stakeholder groups.

Transparency of executive compensation in the aftermath of the global financial crisis is vital in maintaining trust among shareholders, employees, customers, and other stakeholders. Companies that are transparent in their reporting and focus on improving how they disclose executive compensation will fare better in terms of enhancing their corporate reputation among all stakeholder groups.

Environmental Dimension

The Environmental Dimension has a total of 21 criteria.

Asia performs well on the three general criteria in this Dimension. These are **Climate Strategy** with a score of 66 for Asia vs. 61 globally; **Operational Eco-Efficiency** with a score of 60 equal to the global score; and **Environmental Reporting,** the highest score of the three at 77, compared to 72 globally.

Asia performs well on Climate Strategy, Operational Eco-Efficiency and Environmental Reporting.

It is on the more industry-specific criteria such as **Water Operations, Fuel Efficiency, Raw Material Sourcing,** and **Low Carbon Strategy** where Asian scores below the global average in this Dimension.

In this section of the report the focus is on the criterion where companies in Asia score highest, Environmental Reporting.

Maintaining transparency through appropriate environmental reporting, and monitoring it at board level, increases stakeholders' and customers' trust and positively influences a company's reputation and brand equity. While disclosure levels are increasing, the quality of environmental reporting still varies significantly.

Environmental Reporting

Asian companies scored an average of 77 overall for this criterion, down slightly on the previous year but still above the global average of 72. Only two countries, Malaysia and Taiwan, saw their scores fall over the year, the former suffering a significant drop of 78 to 48. This is potentially attributable to the relatively small number of companies participating in 2018 which doubled in number this year.

Encouragingly, scores rose in China, the Philippines, and Singapore, while they remained stable in Hong Kong, South Korea, India and Japan.

Three questions are explored further within this criterion of Environmental Reporting. These are: **Environmental Reporting – Coverage, Assurance,** and **Quantitative Data.**

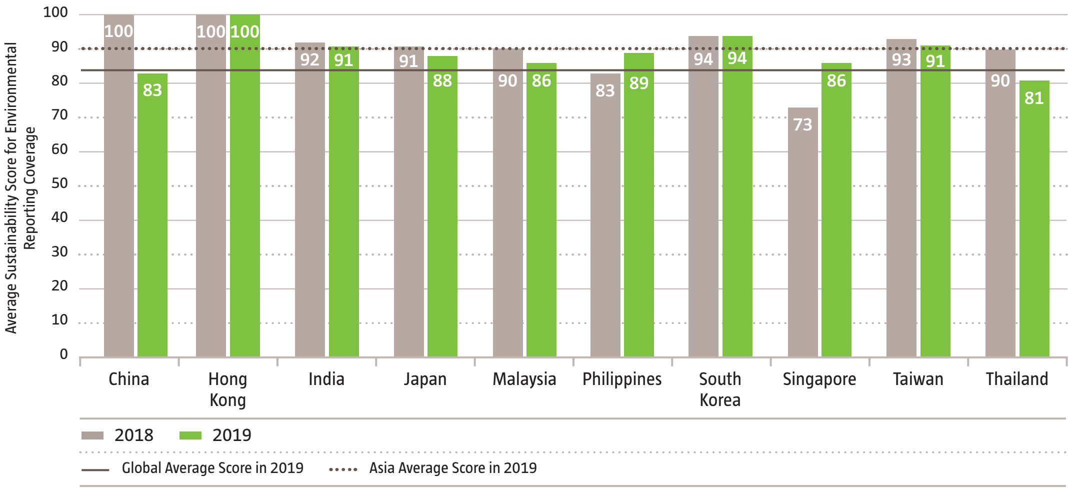
Environmental Reporting – Coverage

This question asks if the coverage of the company's publicly available environmental reporting is clearly indicated in the corporate sustainability report or in the online domain. Although many companies nowadays cover all their operations (globally), there are companies that may only cover environmental data for their headquarters or their local operations.

The question requires publicly available information and details to be provided on which environmental indicators are covered in this information and what percentage of revenues or business operations are tied to environmental indicators.

Asia performs well overall on this question, with its average score of 90 above the global average of 84 – although both figures have fallen slightly over the past year. Hong Kong companies stand out with an average score of 100 for the second consecutive year. India, Taiwan, and South Korea also score above 90. While China scored 100 in 2018, its score dropped to 83 this year and it is now the second-lowest scoring country after Thailand.

Figure 11: Asia outperforms the global average for Environmental Reporting – Coverage



Source: RobecoSAM

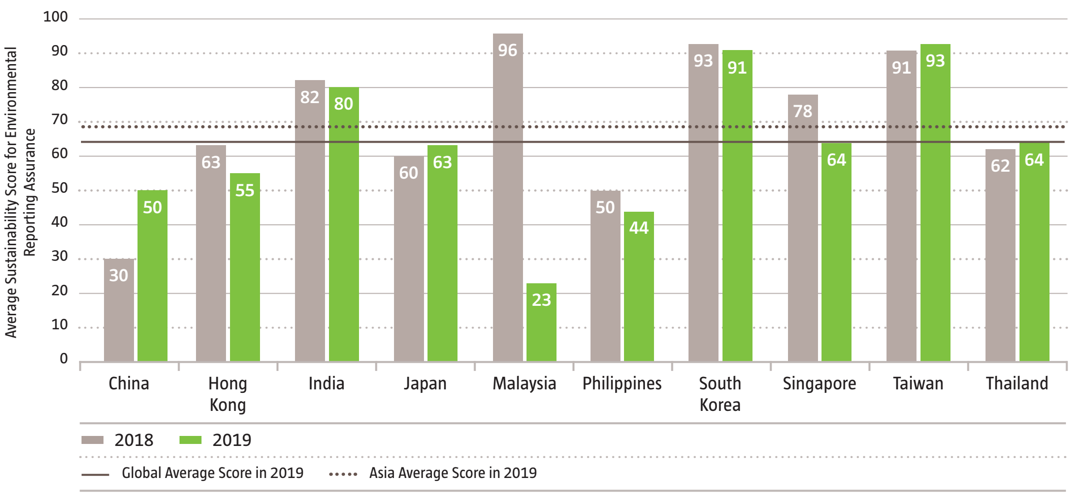
Environmental Reporting – Assurance

This question also requires publicly available information and participants are requested to confirm the type of external assurance the company has received in relation to its environmental reporting. Asia with a score of 69 exceeds the global average of 64.

This is however a lower score this year for Asia, attributable to the large drop in Malaysia's score from 96 to 23. This is a major reason for Malaysian firms' worse Environmental Reporting score in 2019, with the likely reason being the increased number of participants from the country this year which are yet to fully address this all aspects of this question.

China had the largest year-on-year increase, up from 30 to 50 points. Japan, Taiwan, and Thailand also saw their scores rise but only marginally.

Figure 12: Results for Environmental Reporting – Assurance are mixed for Asian countries



Source: RobecoSAM

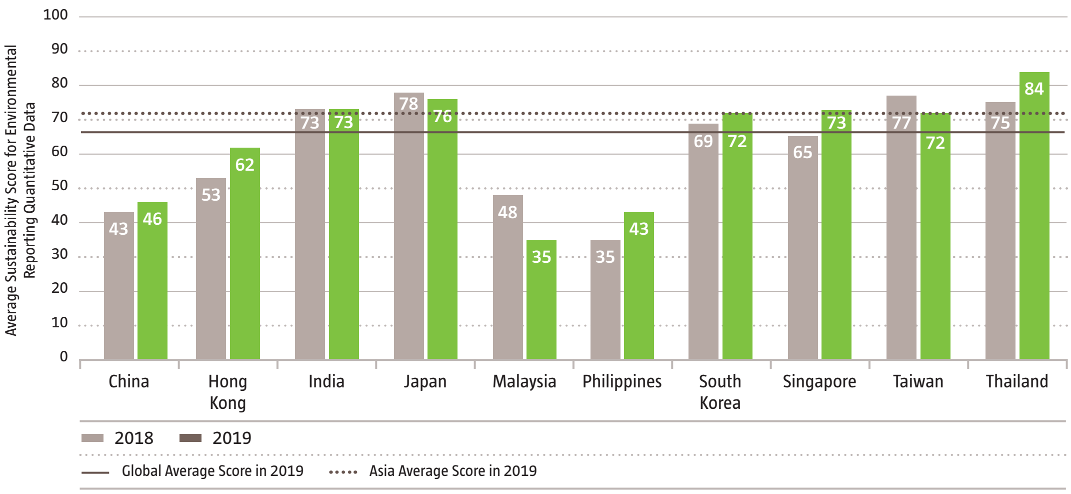
Environmental Reporting – Quantitative Data

As Key Performance Indicators (KPIs) are useful in setting goals and measuring progress against these goals, companies participating in the CSA are expected to use them internally to manage and monitor the progress of environmental initiatives and in how they communicate to external stakeholders. This question assesses the extent to which companies report on quantitative environmental metrics and targets and their progress towards these targets.

Asia scores above the global average in all aspects of Environmental Reporting.

Asia scores above the global average, once again. Requiring publicly available information, the question asks to what extent company reports on environmental KPIs are in the public domain, such as annual reports, sustainability reports, and corporate websites. In response, participants must provide their KPIs, along with the corresponding targets. At 72, five points above the global average score of 67, Asian companies' scores generally improved over the past year. Japan, Malaysia and Taiwan were the only countries in which scores dropped. Despite this, Japan still has the second-highest score, at 76, behind Thailand's score of 84.

Figure 13: Environmental KPI scores rose or remained stable across Asia



Source: RobecoSAM

Social Dimension

The social element of ESG often receives the least attention among investors. However, social sustainability management is directly linked to companies' reputation and brand equity.

While disclosure is increasing, the quality of reporting varies significantly in companies around the world, as is the case with the Environmental Dimension.

Asia performs very well across the criteria within this Dimension. In total there are, 19 of which six are general, to be answered by all participating companies.

Companies in Asia scored above the global average on all six of the general criteria in the Social Dimension.

Companies in Asia scored above the global average on all six of the general criteria which are: **Corporate Citizenship & Philanthropy** where the score of 70 vs 66 is highest than across the other criteria which are; **Human Capital Development** (53 vs. 52); **Labor Practice Indicators** (59 vs. 57); **Human Rights** (39 vs. 35); **Social Reporting** (67 vs. 63); and **Talent Attraction & Retention** (51 vs. 49).

In addition, performance of Asian companies on the industry-specific topics is generally above the global average. These include, **Financial Inclusion, Occupational Health and Safety,** and **Social Impacts on Communities.**

The criterion in focus here is **Labor Practice Indicators,** for which the performance of Asian companies is on the whole reasonably positive.

Labor Practice Indicators criterion

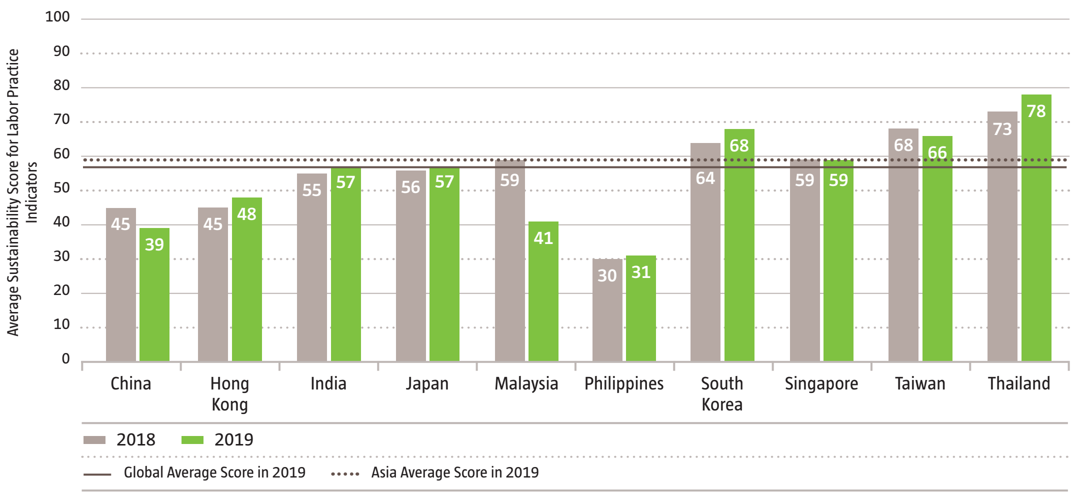
Growing customer awareness is leading to increased expectations of companies in their role as corporate citizens. The rationale for this question acknowledges that employees are one of a company's greatest assets. It refers to maintaining good relations with employees, the provision of safe and healthy working environments, and fair treatment practices, including diversity and equal remuneration. Companies are also expected to comply with international standards on labor and human rights across all their operations.

Overall for this criterion, the global average score is 57 exceeded by Asia with an average score of 59 for the second consecutive year.

The Asian countries in which companies perform best for Labor Practice Indicators are Thailand, with the highest score of 78, followed by South Korea at 68, and Taiwan at 66. The lowest-scoring countries are the Philippines, with an average score of 31, and China, where the average score of 39 has fallen from last year's score of 45.

In total, scores in six of the ten countries have risen, while for Singapore the score remained stable. Overall, it has been a picture of improvement over the year, with only Malaysia experiencing a major fall in 2019.

Figure 14: Most Asian countries manage Labor Practice issues fairly well



Source: RobecoSAM

Going into further detail on Labor Practice Indicators, it focuses on three questions: **Gender Diversity in Management, Equal Remuneration,** and **Freedom of Association.**

The question on **Gender Diversity,** is looking for participants to report indicators for monitoring of diversity-related issues and refers to gender diversity at all levels, minority groups, age and disability. The regional average score at 54 is one point below the global average with the countries that perform best being Thailand leading with a score of 69 followed by Hong Kong and Singapore where the score for each was 64.

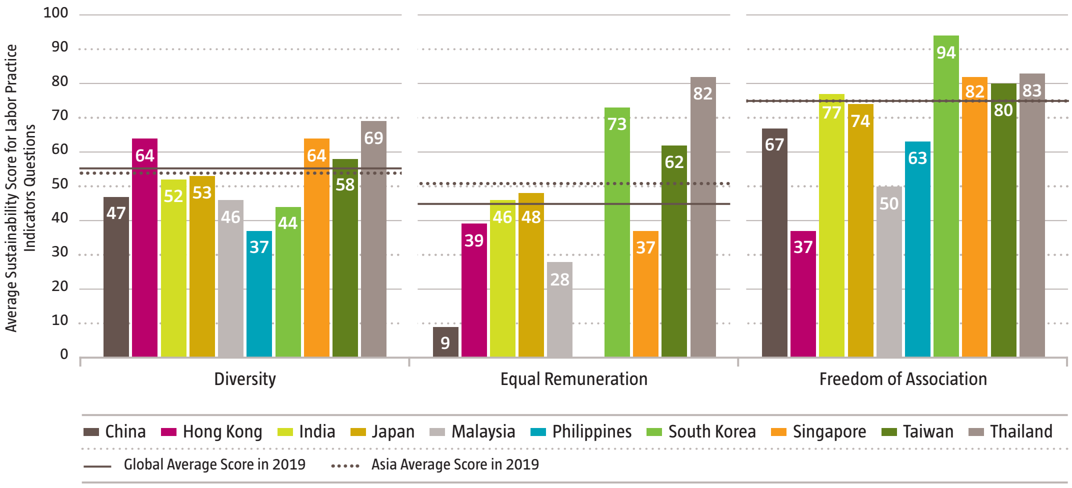
For **Equal Remuneration,** disclosure of average male, and average female salaries and the average ratio is required for roles at executive level, management level (including, and excluding additional cash incentives), and non-management level. On average, Asia is doing significantly well scoring 51 compared to the global average of 45. Thailand once again has the leading score which is 82, still some degree above the closest country which is South Korea where companies also perform well averaging 73. There is a wider range of scores on this issue compared to the other two questions, with China scoring only 9, while the Philippines scores zero.

Companies in South Korea, Taiwan and Thailand show good results on equal remuneration between men and women.

Finally, the question on **Freedom of Association** asks what percentage of the total number of employees is represented by an independent trade union or covered by collective bargaining agreements. Here, four countries exceed the regional average which is the same as the global average of 75. South Korean companies perform well with the highest score of all, 94. Singapore, Thailand, and Taiwan all score 80 points or higher. The lowest score is 37, from Hong Kong.

Public disclosure by Asian companies on employees represented by an independent trade union or covered by collective bargaining agreements on par with global performance.

Figure 15: Good performance on all aspects of Labor Practice Indicators across Asia



Source: RobecoSAM

Conclusion

The results of the 2019 CSA show that Asian companies' sustainability performance is holding up well compared to the previous year, and relative to the sustainability performance of corporates around the world. We see this across each of the Economic, Environmental, and Social Dimensions of the CSA.

This report once again reveals that companies which choose to participate in the CSA process are those achieving the best scores for their management of sustainability issues. This reflects the level of commitment to sustainability from these companies, as well as their understanding of the importance of both transparency and disclosure of sustainability performance.

The CSA aims to raise the bar each year, thus it encourages companies to address current and future sustainability issues identified through 20 years of CSA research as being financially-material. Therefore, it is slightly less encouraging that many of the results from Asia show stability, rather than notably improved performance, indicating that the region is not advancing at a strong pace across all ESG-related topics.

Countries that exhibit some sustained performance year-on-year and across different criteria and questions include Taiwan, Thailand, Singapore, Hong, Kong and in selected aspects of the criteria, South Korea.

While those showing their significant underperformance are China with a low average score alongside Malaysia and the Philippines. Indonesia also stands out here for only one actively participating company out of the 21 invited firms.

Looking at the three Dimensions: Economic, Environmental, and Social, across each there are positive signs. It is the Economic Dimension where corporates in Asia show their weakest performance on the requirements for Corporate Governance. While for the Environmental and Social Dimension criteria performance is good on the whole.

Asia is in a strong position, with potential for some of countries in the continent to become leaders in sustainability management. For corporates in lowering performing areas, looking to their neighbors could help them take the next step, contributing towards further improved corporate sustainability throughout the entire region.

Contact
For more information go to:
www.robecosam.com/csa

About RobecoSAM

Founded in 1995, RobecoSAM is an investment specialist focused exclusively on Sustainable Investing. It provides asset management, impact analysis and investing, sustainability assessments, as well as ESG data, ratings, and benchmarking. Serving institutional asset owners and financial intermediaries the company's asset management capabilities feature a strong track record in sustainability-themed strategies, together with expertise in strategies focused on the UN Sustainable Development Goals (SDGs). RobecoSAM was first to treat ESG as a standalone factor using its Smart ESG methodology. Since 1999 and together with S&P Dow Jones Indices, RobecoSAM has published the globally recognized Dow Jones Sustainability Indices (DJSI). Based on the "SAM* Corporate Sustainability Assessment" (CSA), an annual ESG analysis of over 4,700 listed companies, RobecoSAM has compiled one of the world's most comprehensive databases of financially material sustainability information. The CSA data is also included in USD 136 billion of assets under management at Robeco.

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As a reflection of its own commitment to advancing sustainable investment practices, RobecoSAM is a signatory of the PRI, UN Global Compact and Climate Action 100+, a supporter of the Task Force on Climate-related Financial Disclosure (TCFD), as well as a member of Eurosif, Swiss Sustainable Finance, Carbon Disclosure Project (CDP), and Portfolio Decarbonization Coalition (PDC), among others. As of June 30, 2019, RobecoSAM had client assets under management, advice and/or license of approximately USD 24.3 billion.

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Ratings &
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