Corporate Sustainability Disclosure in Emerging Markets

A baseline study of corporate environmental, social and governance (ESG) reporting trends among the largest publicly traded companies in Brazil, China, India, Indonesia, Israel, the Malaysia, Mexico, the Russian Federation, South Africa and South Korea

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The views expressed in this report are solely those of SIF.

Abstract

This report is a baseline study of corporate environmental, social and governance (ESG) reporting trends among the largest publicly traded companies in Brazil, China, India, Indonesia, Israel, Malaysia, Mexico, the Russian Federation, South Africa and South Korea.

Contents

I. Executive Summary

The Social Investment Forum's (SIF) International Working Group commissioned this report for its Emerging Markets Disclosure Project (EMDP). It is the third in a series of baseline studies aimed at establishing corporate environmental, social and governance (ESG) reporting trends in the largest emerging markets worldwide.[1] The study's aim is to assist the EMDP in setting goals and priorities for its country teams in the years ahead, as the project begins corporate engagement efforts to promote greater sustainability reporting in emerging markets. The United Nations Conference on Trade and Development (UNCTAD) generously provided the underlying data for this report.

Paper's scope: This third disclosure assessment covers more companies than its predecessors. It includes the top 10 companies by market capitalization in 10 of the world's largest emerging markets—Brazil, China, India, Indonesia, Israel, Malaysia, Mexico, the Russian Federation, South Africa and South Korea—for a total universe of 100 companies. As a group, the 100 companies represent 46.5 percent of the market capitalization of the MSCI-EM Index[2] as of March 12, 2008. Consequently, the sample chosen represents a large portion of the investable universe of emerging market enterprises and the largest in the baseline series of reports. Meanwhile, the first report in the series, released in January 2008, covered 75 companies, while the second, published in March 2009, analyzed 40 companies. On a geographic basis, the March 2009 report also spanned 10 countries, while the January 2008 report covered only seven.

The March 2009 report and this one both have roughly the same number of indicators. This report analyzes the companies' reporting practices on five environmental, five social and 10 corporate governance indicators for 20 in all. In contrast, the January 2009 report asked five basic questions about reporting.

International comparisons: Among this paper's key findings was that, while almost all emerging market companies report on at least one ESG factor—96 percent of this paper's universe, few conform to a global standard, such as the guidelines of the Global Reporting Initiative (GRI). Researchers found that only:

- 14 of the 100 declared reporting in accordance with the GRI's guidelines, with a mere 20 making reference to the GRI.

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[1] The two other studies in the series are:

EIRIS. (March 2009). "A Review of ESG Practices in Large Emerging Market Companies." Washington, DC: Social Investment Forum and Sustainable Investment Research Analyst Network.

KLD Research & Analytics. (January 2008). "Sustainability Reporting in Emerging Markets: An analysis of the sustainability reporting in selected sectors of seven emerging market countries." Washington, DC: Social Investment Forum and Sustainable Investment Research Analyst Network.

[2] MSCI is a commercial provider of financial information, including equity indices tracking publicly listed companies around the world. The MSCI-EM Index is a gauge of emerging markets performance widely used by institutional investors, and is an important tool for facilitating foreign portfolio investment to developing countries and countries with economies in transition. All MSCI EM Index data used in this study is based on the index as of March 12, 2008.

- Of the 28 companies listed as signatories to the United Nations Global Compact, only 18 (64 percent) produced a Communication on Progress (COP) and/or a GRI report in compliance with the Compact's reporting requirements.

Still, companies in emerging markets only lagged counterparts in developed nations by a small margin and even outperformed them in a few instances. As tracked by CorporateRegister.com, about one third of the constituents in the Global FT 500 produce sustainability reports that follow the GRI's reporting standards.[3] In addition, among the world's largest exchanges, GRI found that 64 percent of Germany's DAX 30, 48 percent of France's CAC 40, 22 percent of the United Kingdom's FTSE 100 and only 13 percent of the United States' S&P 500 issued sustainability reports using the GRI's latest *G3 Guidelines*.[4]

Issue areas: Descriptions of governance structures and board committees was the most commonly reported indicator among the 100 companies, with 96 percent of the sample reporting on this indicator. It was followed by data on employee wages and benefits with related breakdowns by employment type and gender (90 percent). The only other non-governance indicator to make the top 10 for disclosure was another social indicator, total work force composition by employment type, contract status and gender (83 percent). The 10 governance metrics averaged the highest reporting rates (72.7 percent). In fact, only 11 of the 20 indicators had disclosure rates of greater than 50 percent, nine governance and the two social data elements mentioned above.

Of the three categories (environmental, social and governance), environmental information was the least likely to be reported (30.6 percent on average). Of the environmental issues assessed, energy use was the most disclosed item (39 percent) and ranked 13 out of the 20 indicators, followed by water use (34 percent). Climate-related data were placed a distant third (30 percent) among environmental issues and 15th overall.

However, the much higher rates of reporting on governance information in general and two social elements mentioned above likely resulted from regulatory and listing requirements in several of the countries studied. Other social issues considered key to a company's sustainability, such as data on workplace related accidents and illnesses (24 percent), were reported at much lower rates than many environmental criteria. Still, social criteria were the second most likely type of criteria to be reported overall (47.4 percent).

Country findings: Companies from South Africa exhibited the best overall transparency practices, while firms from China, India, Indonesia and Mexico lagged. Notably, South Africa was the only country with all of its companies reporting some form of ESG data, while India had the highest rate (40 percent) of companies disclosing no form of ESG information. A factor driving sustainability reporting in South Africa is that the country's Johannesburg Stock Exchange (JSE) operates a socially responsible investment (SRI) index, requires the top

[3] CorporateRegister.com. (March 2009). CRReportingAwards '08, Global Winners & Reporting Trends. Retrieved June 15, 2009, from http://www.corporateregister.com/pdf/CRRA08.pdf.

[4] Global Reporting Initiative. (July 15, 2009). "Number of companies worldwide reporting on their sustainability performance reaches record high, yet still a minority." Retrieved July 16, 2009, from http://www.globalreporting.org/NewsEventsPress/PressResources/PressRelease_14_July_2006_1000GRIReports.htm.

40 companies by market capitalization to issue sustainability reports as part of its listing requirements, and encourages smaller listed companies also to publish ESG information. Brazil tied with Malaysia and South Korea for the second highest disclosure rates. Brazil's Sao Paulo Stock Exchange has a similar SRI index to the JSE and also surveys its largest issuers on sustainability policies and practices.

In addition, South African companies were the most likely to make a reference to GRI, with nine doing so, followed by Brazilian and Korean firms, each with five making reference. Companies from Brazil and South Africa also were among the most likely to include a GRI Index, with five firms each from Brazil and South Africa doing so in accordance with the GRI's reporting requirements. South Africa had the most companies making reference to the UN Global Compact too, with five companies doing so, followed by Brazil with four.

Sector results: By sector, firms in the extractives sector were among the most likely to report ESG information, perhaps because of the significant controversies surrounding the industry and stakeholder pressure for these types of companies to report and improve performance.

Earlier studies: This study's findings confirmed those from two previous reports commissioned by SIF. While each of the three reports varied in the universe and indicators they covered, all three have some common themes. Reporting is somewhat widespread in emerging markets but limited in depth. Most reports, even among the largest firms analyzed, do not conform to international norms, such as GRI. Finally, markets with stricter listing requirements for exchanges that address ESG issues, such as Brazil and South Africa, have the best records for transparency in this area.

Recommendations: Based on these findings, SIF recommends:

- Given the large differences in reporting practices among the emerging markets analyzed in this report, it would make sense for EMDP country teams to tailor individual strategies to selecting companies and topics for engagement.
- While country-specific issues and reporting needs are inevitable, all country teams should encourage companies to use the GRI's latest guidance, the *G3 Guidelines*, when reporting to ensure consistency and comparability in data.
- In all markets, it is important for country teams to encourage new investors to engage companies on the issue of sustainability reporting. As a first step, investors can make a commitment to support the EMDP and its activities by signing onto the EMDP *Investor Statement on Sustainability Reporting in Emerging Markets*. A copy of the statement appears as an annex to this report on page 28.
- As some of the best ESG reporting practices originate in countries with regulations, listing requirements and exchange-sponsored SRI indexes, investors also should use their leverage with government and stock exchanges to promote these reforms.
- Regular assessments of disclosure practices are needed to measure and promote progress.

II. Background and Research Method

The EMDP began as an international initiative to improve sustainability disclosure in emerging markets shortly after the idea was proposed by Calvert Investments at the "PRI in Person" Conference in July 2007. The project quickly became a collaborative effort by the Social Investment Forum (SIF) and its members, including project co-chairs Boston Common Asset Management and Calvert Investments, as well as EIRIS and KLD Research & Analytics (now owned by SIF member RiskMetrics Group). In addition, the World Bank's International Finance Corp. (IFC), the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Principles for Responsible Investment (UNPRI) have provided the EMDP with technical support and data. SIF acts as the project's secretariat.

The EMDP has three, overlapping phases. During the first, which includes this report, EMDP partners collected baseline data to ascertain sustainability reporting levels in emerging markets. During the second, EMDP drafted and promoted an investor sign-on letter so that other investors could express support of greater transparency in corporate reporting on sustainability issues and the project's overall goals. Finally, as part of phase three, the EMDP has developed country teams and plans and has begun to implement them. Country teams will soon begin to engage companies directly in a dialogue to improve the companies' ESG reporting practices.

During phase one, EMDP project partners gathered benchmark data on sustainability reporting in the emerging markets where the project would be active. SIF and two of its working groups—the International Working Group (IWG) and the Sustainable Investment Research Analyst Network (SIRAN)—in collaboration with SIF member KLD Research & Analytics published the first study, *Sustainability Reporting in Emerging Markets: An analysis of the sustainability reporting in selected sectors of seven emerging market countries*, in January 2008. It was followed by a second report, *A Review of ESG Practices in Large Emerging Market Companies* produced by EIRIS and SIF in March 2009. This report is the last of the series of baseline studies to assess reporting trends in the emerging markets where EMDP country teams will be actively engaging companies, encouraging them to issue sustainability reports in line with global best practices such as the Global Reporting Initiative's *G3 Guidelines*.

This study's purpose is to evaluate the level of reporting on ESG issues among the top 10 companies in each of 10 leading emerging markets, as defined by weightings in the Morgan Stanley Capital International Emerging Markets (MSCI-EM) Index.[5] To assess reporting practices, researchers selected 20 key performance indicators from 75 presented in two studies UNCTAD published in 2008.[6] Researchers then compared these findings with those

[5] MSCI is a commercial provider of financial information, including equity indices tracking publicly listed companies around the world. The MSCI-EM Index is a gauge of emerging markets performance widely used by institutional investors, and is an important tool for facilitating foreign portfolio investment to developing countries and countries with economies in transition. All MSCI EM Index data used in this study is based on the index as of March 12, 2008.

[6] UNCTAD. (2008). *Review of the reporting status of corporate responsibility indicators'* and *Review of the implementation status of corporate governance disclosures: an examination of reporting practices among large enterprises in 10 emerging markets*. Geneva, Switzerland: UNCTAD.

from two other reports produced for SIF working group SIRAN.[7] The aim of this exercise was to establish a baseline of information on corporate ESG disclosure across emerging markets to enable the EMDP to assess priorities and progress in promoting sustainability reporting in these markets in the years ahead.

The report presents statistics on the ESG disclosure practices of the top 10 companies by market capitalization in each of the top 10 emerging market economies by index weighting in the MSCI-EM Index, with one caveat. Indonesia, the 11th largest market in the MSCI-EM, was substituted for Taiwan in the study, because data from UNCTAD was only available for members of the United Nations. Based on their weightings in the index and this one exception, the markets studied are Brazil, China, India, Indonesia, Israel, Malaysia, Mexico, the Russian Federation, South Africa and South Korea.

A. Market and Company Selection

The top 10 emerging markets by weight within the MSCI-EM Index as of March 12, 2008, are listed in Table 1. As the table shows, the most heavily weighted countries are Brazil (14.9 percent), followed by China, (14.2 percent), South Korea (13.2 percent) and the Russian Federation (10.0 percent). The four altogether account for more than half—52.3 percent—of the index. As mentioned earlier, Indonesia was substituted for Taiwan, because Taiwan is not a UN member, and therefore UNCTAD, the data source for this report, had excluded Taiwan from its earlier studies. Readers should note that Taiwan ranks fourth by weighting in the MSCI-EM Index at 11.3 percent, while Indonesia ranks at 11th with 1.7 percent. A positive for the substitution of Taiwan for Indonesia is that the EMDP has a country team in Indonesia, while it does not have a team in Taiwan. (The other countries where EMDP has teams planning to engage companies on ESG disclosure issues are Brazil, China, India, the Russian Federation, South Africa and South Korea.)

The researchers selected the companies for this study on the basis of their economic significance within their home countries. Table 1 shows that each of the 10 sets of 10 companies selected for this study account for between 45 percent and 84 percent of their respective country's index weighting. In fact, for the Russian Federation, Mexico, Israel and Indonesia, the companies studied represent more than 80 percent of each market's total weighting in the MSCI-EM Index. As a group, the 100 companies in the study's universe represent 46.5 percent of the market capitalization of the entire MSCI-EM Index as of March 12, 2008. Consequently, the sample chosen represents a large portion of the investable universe of emerging market enterprises. A complete list of companies included in the study's universe, by country, is found in the Annex on page 26.

[7] EIRIS. (March 2009). "A Review of ESG Practices in Large Emerging Market Companies." Washington, DC: Social Investment Forum and Sustainable Investment Research Analyst Network.
KLD Research & Analytics. (January 2008). "Sustainability Reporting in Emerging Markets: An analysis of the sustainability reporting in selected sectors of seven emerging market countries." Washington, DC: Social Investment Forum and Sustainable Investment Research Analyst Network.

Table 1. Top 10 Emerging Markets in the MSCI EM Index by Index Weighting

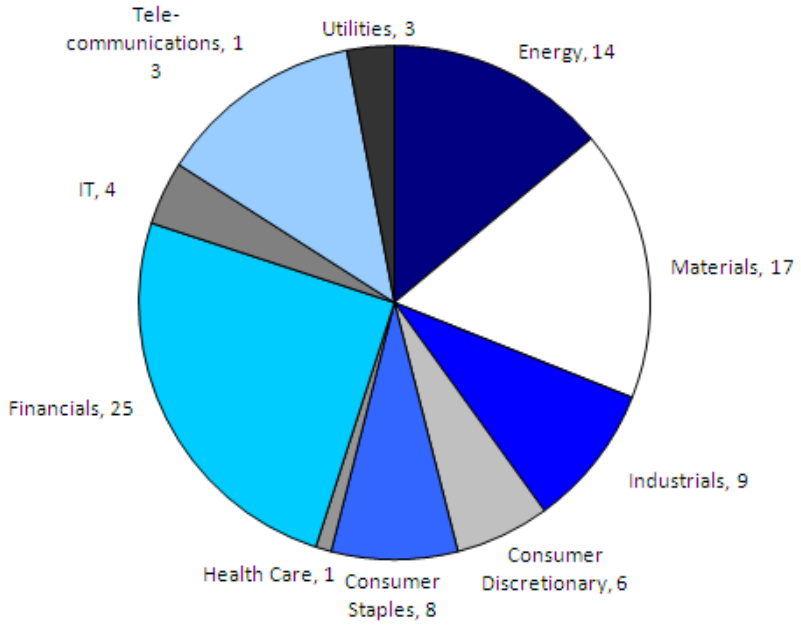
Country	Index weighting of country (percent)	Number of companies from this country in the index	Selected top 10 companies as percent of country weighting	Selected top 10 companies as percent of index total market capitalization
Brazil	14.9	72	50	7.5
China	14.2	112	56	8.0
South Korea	13.2	114	45	6.0
Russian Federation	10.0	32	82	8.2
India	7.2	67	52	3.7
South Africa	6.7	50	63	4.2
Mexico	4.8	28	84	4.0
Israel	2.4	32	84	2.0
Malaysia	2.4	57	59	1.4
Indonesia	1.7	22	83	1.4
Total	77.4			46.5

Source: UNCTAD

B. Companies Analyzed by Sector

The firms included in the study represent a wide range of industries. Researchers used the Global Industry Classification Standards to classify companies. The distribution of the 100 companies by sector is displayed in Figure 1 below. Financial services, materials, energy and telecommunications account for the largest portions of the universe of companies and for nearly 70 percent of all of the companies reviewed.

Figure 1. Number of Companies by Industry Sector[8]



Source: UNCTAD

[8] Based on Global Industry Classification Standard (GICS) as of Aug. 29, 2008. Source: www.mscibarra.com.

C. Indicator Selection and Research Methods

As mentioned earlier, this baseline study assesses company disclosures on 20 sustainability indicators—five environmental, five social and 10 governance—drawn from two UNCTAD reports. The list of indicators appears in the next section. Researchers culled data from publicly available sources, including companies' publicly available financial reports and, when appropriate, securities filings, stand-alone sustainability reports and websites. Researchers also examined the location of corporate responsibility information. A distinction was made between companies that report information in a specific section of the annual report, without a separate sustainability report, those with a separate sustainability report, and still others only offering information on their websites. Researchers did not contact companies to see if other information was available upon request.

III. Findings

A. Disclosure Indicators and Overall Results

Table 2 lists the 20 disclosure items selected for this study. The indicators are arranged into three categories: environmental (five indicators), social (five) and governance (10). The number of companies disclosing in each category is listed in the column next to each indicator. As reflected in Table 2 below, governance structures and board committees was the most commonly reported indicator among the companies studied (96 percent), followed by employee wages and benefits with breakdowns by employment type and gender (90 percent) and risk management objectives (88 percent). The 10 governance metrics overall averaged the highest reporting rates (72.7 percent). Another social indicator, total work force composition by employment type, contract status and gender, also had a high disclosure rate (83 percent).

Table 2. Number of Companies Disclosing Information on each Indicator

Indicator	Number of companies
Environmental	
Energy use	39
Water consumption	34
Global warming contribution	30
Material efficiency	27
Waste generated	23
Social	
Employee wages and benefits with breakdown by employment type and gender	90
Total work force with breakdown by employment type, employment contract and gender	83
Average hours of training per year per employee broken down by employee category	26
Work days lost due to occupational accidents, injuries and illness	24
Percentage of employees covered by collective agreements	14
Governance	
Governance structures, such as committees and other mechanisms to prevent conflict of interest	96
Risk management objectives, system and activities	88
Ownership structure	87
Internal control systems	86
Availability and accessibility of meeting agenda	84
Process for holding annual general meetings	68
Performance evaluation process	66
Existence of procedure(s) for addressing conflicts of interest among board members	54
The decision making process for approving transactions with related parties	53
Policy on whistleblower protection for all employees	45

Source: UNCTAD

Of the three categories (environmental, social and governance), environmental policies and metrics were the least likely to be reported (30.6 percent on average). Of the environmental issues assessed, energy use (39 percent) was the most disclosed item and ranked 13 out of the 20 indicators, followed by water use (34 percent). Climate-related information (30 percent) placed a distant third among environmental issues and 15th overall, while efficiency in using materials (27 percent) and waste generation (23 percent) trailed.

However, the much higher rates of reporting on governance information in general and two social elements mentioned above likely resulted from regulatory and listing requirements in several of the countries studied. Other social issues considered key to a company's sustainability, such as data on workplace related accidents and illnesses (24 percent) and unionization rates (14 percent), were reported at much lower rates than many environmental criteria, with unionization rates winning the dubious distinction of being the least likely disclosed out of all of the indicators. Still, social criteria were the second most likely to be reported (47.4 percent) overall.

B. Country, Sector and Document Trends

Researchers reviewed where each firm's disclosure took place, whether in the annual report or a separate corporate responsibility report, or on the company's website, and then broke this down by the company's country of origin. The results are displayed in Figure 2. In addition, the chart displays the number of companies that do not explicitly disclose corporate responsibility information by country.[9]

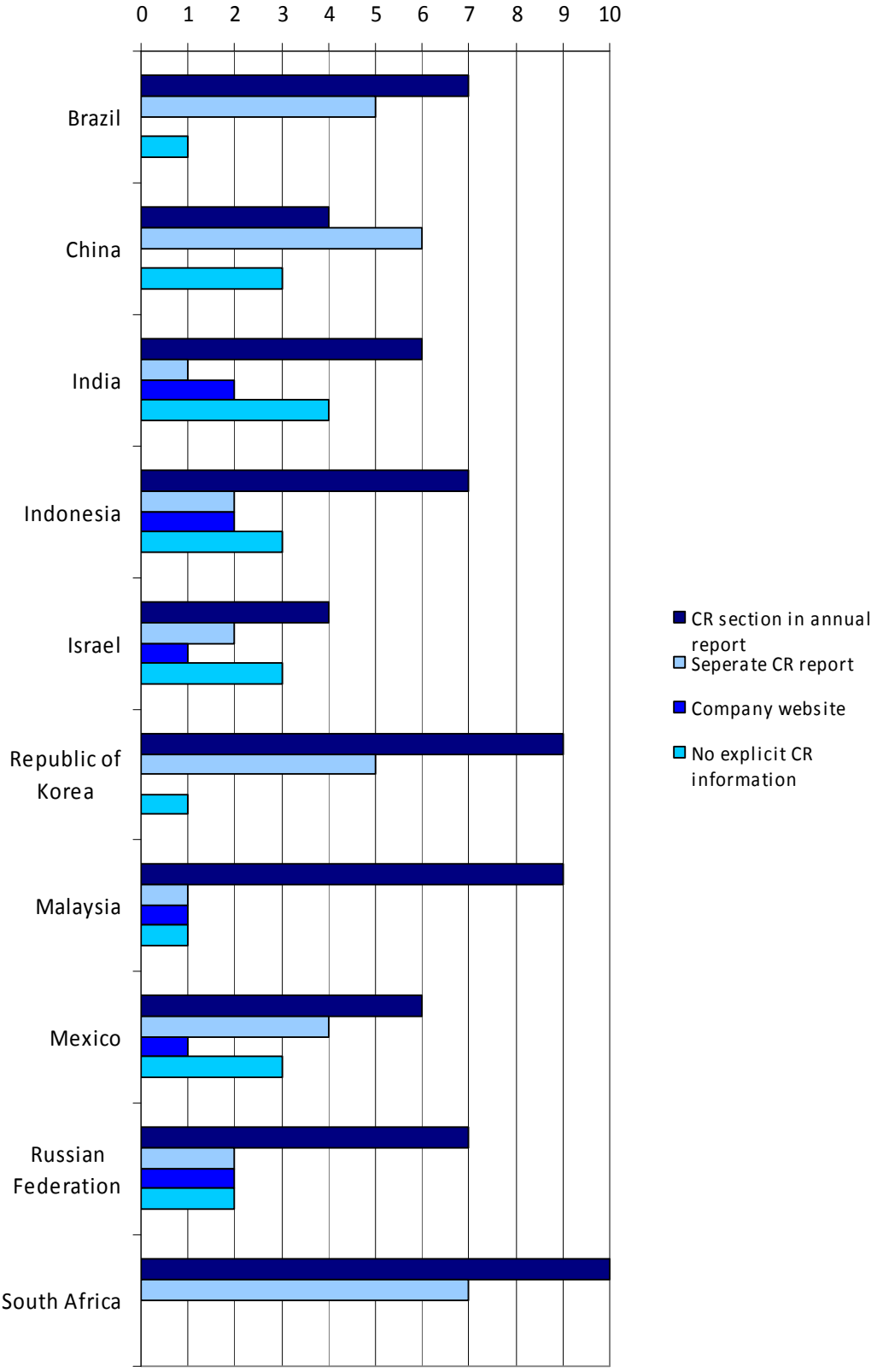
By country: South African companies had the best record for reporting, with all disclosing on at least one of the ESG indicators chosen for this study and all doing so in a sustainability section of the annual report or in a separate sustainability report. South Africa was followed by Malaysia and South Korea, where nine out of 10 companies examined in each country reported on ESG issues. One reason for South Africa's strong showing is its stock exchange's listing requirements. The Johannesburg Stock Exchange requires its top 40 companies by market capitalization to report on a core set of sustainability indicators and encourages others to do so by offering a slot in its JSE Socially Responsible Investment Index to the best performers.[10] Brazil's Sao Paulo Stock Exchange has a similar ESG index and also surveys its largest issuers on sustainability policies and practices.[11]

[9] 'Explicit' disclosure in this context means information that is distinctly presented as 'corporate responsibility' or 'sustainability' information in a recognized portion of the annual report, website or other company publication.

[10] Johannesburg Stock Exchange. (n.d.). Retrieved Oct. 22, 2009, from http://www.jse.co.za/sri/development_index.jsp

[11] Sao Paulo Stock Exchange. (n.d.). Retrieved Oct. 22, 2009, from http://www.bovespa.com.br/Market/MarketIndexes/ise_i.shtml.

Figure 2. Number of Firms Reporting ESG Information by Country and Document Type



Source: UNCTAD

Meanwhile, India (60 percent), followed by Indonesia (70 percent), Israel (70 percent) and Mexico (70 percent), had the lowest disclosure rates, as measured by the percentage of companies not disclosing on any of the ESG indicators selected for the study. The results were surprising for Indonesia, which has statutory requirements for natural resource companies to report, and for Israel, where the local exchange sponsors an SRI index. China's position in second to last place in corporate sustainability transparency also is unexpected given recent government disclosure requirements there. China's influential State-Owned Assets Supervision and Administration Commission released a directive in January 2008, strongly encouraging state-owned enterprises to follow sound sustainability practices and to report on their sustainability activities.[12] In addition, the Shanghai Stock Exchange issued a communication to listed companies in May 2008, encouraging them to improve ESG performance by committing to "promoting sustainable development of the economy and society."[13] The Shenzhen Stock Exchange also released social responsibility guidelines for its listed companies in September 2006.[14] However, as much of this new guidance for China was issued in 2008, companies there have had little time for management to react and to reallocate budgets and for an uptick in sustainability reporting to be measured in this study.

Overall, Mexican (10), Korean (nine) and South African (nine) companies were the most likely to include sustainability information in annual reports. Firms from Indonesia (zero), Israel (one) and Malaysia (one) were the least likely to do so. South African companies (seven), followed by China (six), Brazil (five) and South Korea (five) were the most likely to publish standalone sustainability reports, while firms from India (one), Malaysia (one), Indonesia (two) and Israel (two) were the least likely to have a separate sustainability report. (As the data and Figure 2 indicate, some companies posted ESG information in multiple places—annual report, separate sustainability report and/or corporate website.)

By sector: By industry, firms in the extractives sector, perhaps because of the significant controversies surrounding the industry and stakeholder pressure for these types of companies to report and improve performance, were among the most likely to report ESG information. Given the small sample size, the researchers found no other outliers by sector.

By disclosure document: Of the 100 companies examined, 69 dedicated a specific section of the annual report to corporate responsibility issues. Another 35 published separate sustainability reports, and 28 of those also included the information in the annual report. Finally, nine firms published their ESG information only on the company website. All told, almost all of the companies—96—disclosed some kind of corporate responsibility information. (As noted above, many companies reported sustainability information in several places.)

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[12] CSR Asia. (Jan. 9, 2008). "CSR as 'No. 1' Issue for state-owned enterprises in China." *CSR Asia.* Retrieved Oct. 22, 2009, from http://www.glinet.org/standard.asp?id=4955.

[13] Shanghai Stock Exchange. (May 14, 2008). "SSE Drives Listed Companies to Fulfil Social Responsibilities." Retrieved Oct. 22, 2009, from http://www.sse.com.cn/sseportal/webapp/datapresent/EnglishNews?PAGE=6.

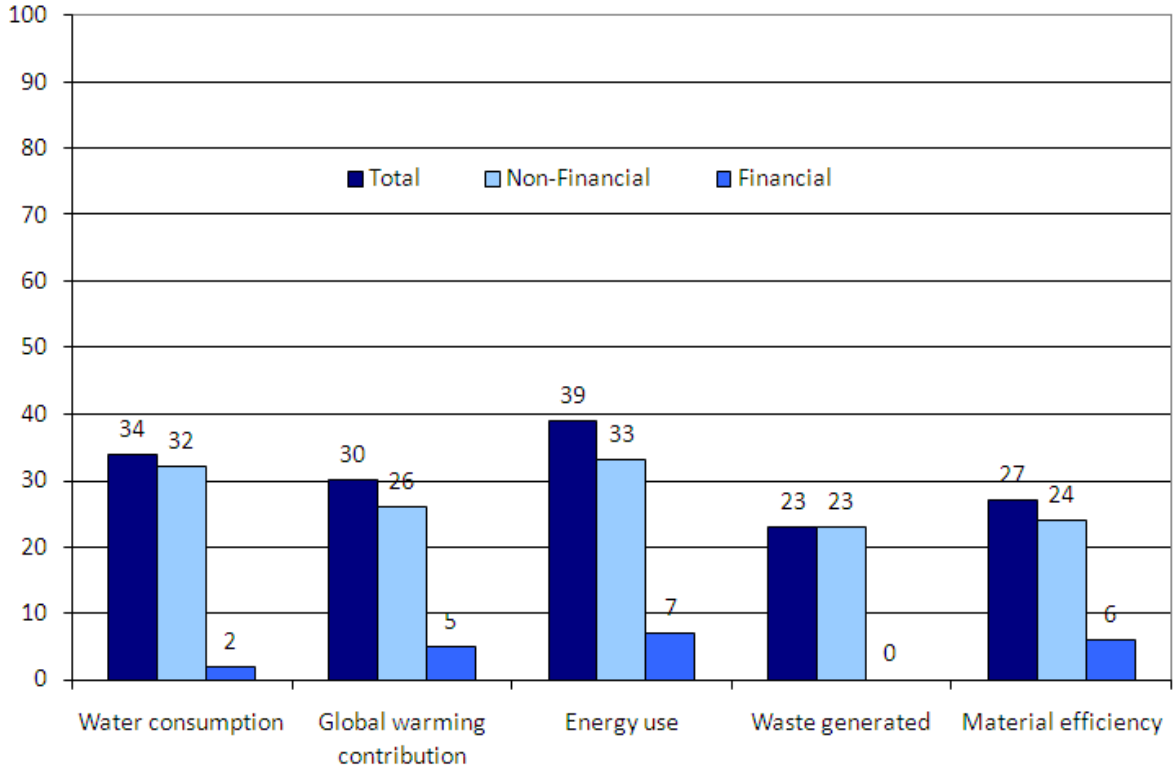
[14] Shenzhen Stock Exchange. (n.d.). Retrieved June 1, 2009, from http://www.szse.cn/main/en/rulseandregulations/sserules/2007060410636.shtml.

C. Environmental Metrics

As mentioned earlier, researchers looked at environmental disclosure in five areas—water use, carbon emissions, energy use, waste generation and materials efficiency. Figure 3 displays the number of companies in emerging markets that disclose quantitative information on each of the selected environmental indicators. The study also distinguished between financial and non-financial disclosures. Financial information on environmental issues was defined as information reported in monetary units, while non-financial information was defined as information in physical units, such as liters, kilojoules and cubic meters. Readers should note that companies sometimes disclose both financial and non-financial information on the same indicator. Therefore, the total number of enterprises in Figure 3 is not necessarily the sum of the total number of financial and non-financial disclosures.

Energy use was the most prevalent disclosure, with 39 firms issuing data in this area. Most of the 39 firms reported non-financial information, but seven companies also included financial information. Water use was the second most frequently disclosed item with 34 companies issuing information in this area. Of those, 32 firms issued non-financial information, while two published financial metrics in this area. Waste generation was the least likely disclosure, with only 23 firms issuing information in this area. Overall, non-financial disclosures of environmental metrics were far more common than financial-related data.

Figure 3. Number Companies Reporting on Environmental Metrics



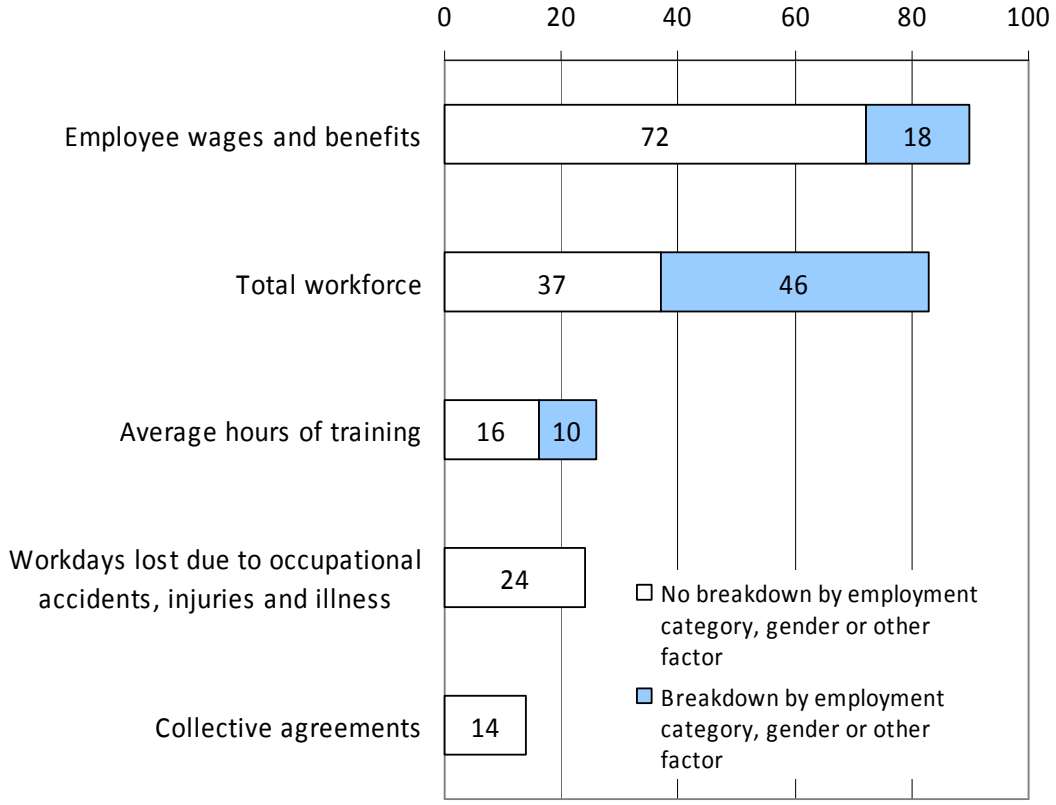
Source: UNCTAD

D. Social Indicators

Employee wages and benefits was the most frequently disclosed of the five social indicators and one of the most fundamental ways a company can contribute to community development in emerging economies. In all, 90 companies disclosed information on the value of employee wages and/or other benefits, making this indicator the second most often disclosed among the study's universe after governance structures. Of the 90 disclosing, 18 reported some type of breakdown such as employment category or gender. Most enterprises reported, at minimum, information on expenditures on post-employment benefits, such as pensions, in their financial statements.

One of the most significant positive economic and social contributions an enterprise can make to the country in which it operates comes through the creation of jobs and delivering skills training to an unskilled work force. As displayed in Figure 5, 83 firms stated the total number of their employees; of these, more than half (46) provided some form of breakdown such as by gender, employment type or country. In all, 26 companies in the study's universe disclosed the average number of hours of training per year they administered per employee, and 10 of provided a breakdown, for example, by employment category or gender.

Figure 4. Number of Firms Reporting on Social Indicators



Source: UNCTAD

Only 14 companies disclosed the percentage of their work force covered by collective bargaining agreements. The low rate potentially can be attributed to a lack of willingness on the part of companies to discuss union representation or the mere fact that many do not have unionized work forces. Unions and many labor and human rights groups regard representation as the best safeguard against workplace abuses, especially in countries where enforcement of labor laws is lax.

The number of workdays lost due to occupational accidents, injuries and illness can reflect the degree to which enterprises contribute to creating a healthy, safe and productive work environment. As depicted in Figure 4, the indicator was disclosed by 24 enterprises. Table 3 displays the distribution of these 24 enterprises among the various industry sectors. While the sample is small, companies operating in more labor-intensive industries and those more susceptible to injuries, such as energy, materials and industrials, were more likely to disclose these statistics. In fact, companies in the materials sector were responsible for the majority of the disclosures on workdays lost, both in absolute and in relative terms. The energy and industrials sectors also had a relatively high disclosure rate.

Table 3. Number of Workdays Lost by Industry Sector

Workdays lost by sector	Disclosure	No Disclosure
Energy	5	9
Materials	11	6
Industrials	3	6
Consumer Staples	2	6
Financials	3	22

Source: UNCTAD

E. Governance Factors

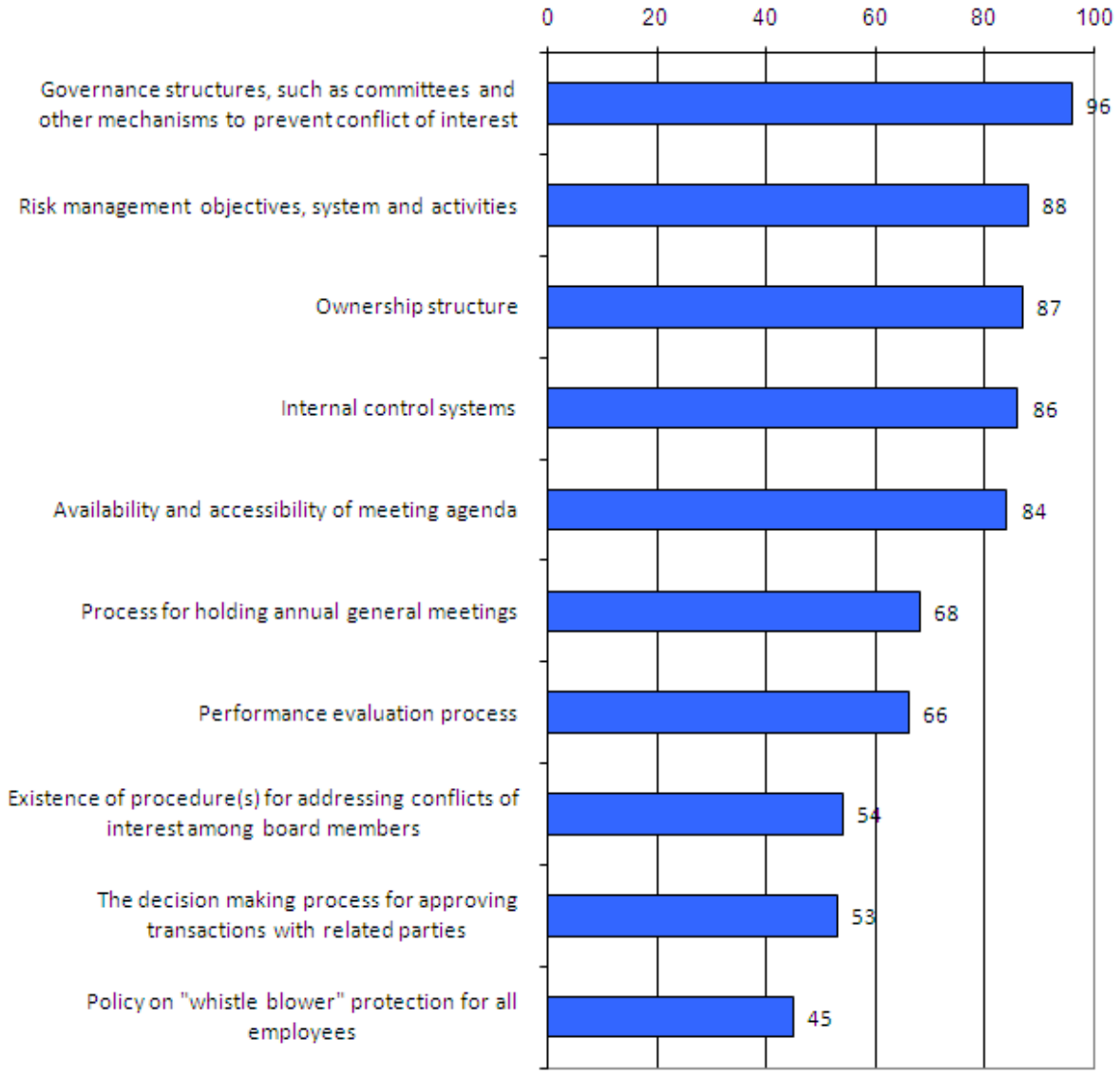
As mentioned earlier, governance disclosures, especially those addressing board oversight, were among the most common among the 100 firms analyzed, with 96 of the companies issuing information to shareholders in this area. Risk management objectives, systems and activities (88 percent), ownership structure (87 percent) and internal control systems (86 percent) also ranked high among disclosures, while policies on whistleblowers (45 percent), descriptions of decision making processes for approving transactions (53 percent) and procedures for assessing and eliminating conflicts of interest among board members (54 percent) were among the least reported. (See Figure 5.)

By country, governance disclosure rates were relatively uniform, ranging from an average of 8.4 companies per governance indicator for Malaysia to 6.1 for Korea, with an average of 7.3 for all countries. Some outliers included:

- **China**—only two firms disclosed whistleblower protections for employees.
- **Korea**—only one company reported the decision making processes for approving transactions with third parties.
- **Malaysia**—only two described whistleblower policies.
- **Russian Federation—**only two reviewed performance evaluation processes for board and management and only one mentioned a whistleblower policy.

Corruption is internationally recognized as an obstacle to economic development and a hindrance to international trade and investment. Companies can make a positive contribution to eradicating corruption by reporting on the measures taken to ensure they are not complicit in unethical behavior, such as codes, hotlines, protections for whistleblowers and other oversight measures. Even though a majority of the top 10 companies in Brazil, China, India, Indonesia, Malaysia and Mexico disclosed internal control systems, India was the only market where more than 80 percent of the top 10 reported on internal whistleblower protection policies. The average disclosure rate among all markets was 4.5 in this category. Further, an average of five companies across the top 10 markets disclosed measures taken to eliminate conflicts of interest among board members, but India and Malaysia were the only two where a majority of the top 10 firms reported these types of safeguards.

Figure 5. Number of Companies Reporting Governance Information



Source: UNCTAD

F. References to GRI and the Global Compact

The Global Reporting Initiative (GRI) has developed the world's most widely used sustainability reporting framework. The cornerstone of the GRI reporting framework is its *G3 Guidelines*, published in 2006. To date, more than 1,000 companies, including many of the world's leading brands, have declared their voluntary adoption of the GRI guidelines worldwide.[15] Nonetheless, GRI reporting is not a common practice even in developed markets, where only a minority of the largest companies produces sustainability reports of this type. Of the 100-company sample for this study, only 14 supplied a GRI Index, a requirement of GRI's *G3 Guidelines* that entails directing report readers to where specific information related to GRI indicators can be found. In addition, another four, for a total of 20, made some sort of reference to GRI in their sustainability report. (See Figure 6.)

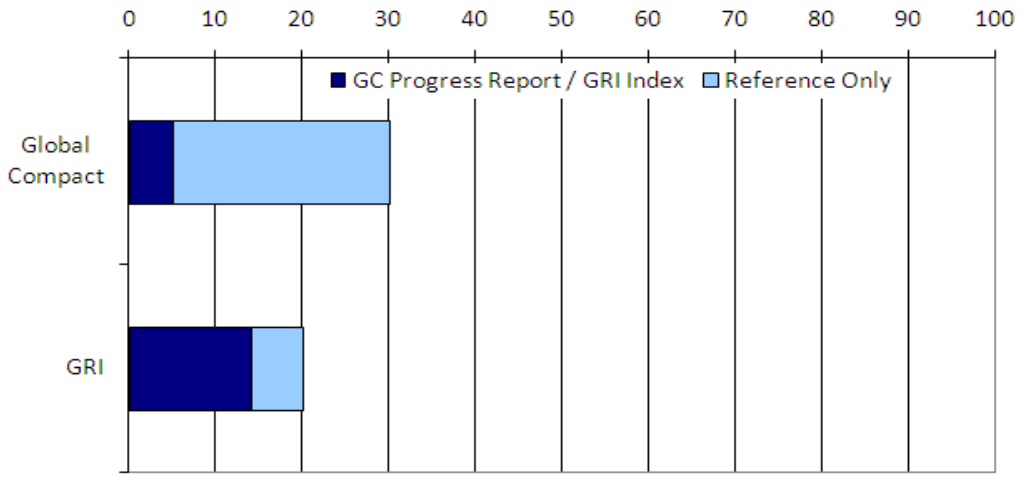
The United Nations Global Compact is the largest corporate code of conduct initiative in the world.[16] It is a voluntary initiative for businesses that are committed to aligning their operations and practices with 10 universally accepted principles in the areas of human rights, labor, environment and anti-corruption. It also has a minor reporting requirement that asks signatories to describe to the public an example from the past year of how they implemented the principles outlined in code. It is a far cry from a GRI report, but the Global Compact also encourages companies looking to produce a sustainability report to follow the GRI's *G3 Guidelines.* To date, the Global Compact has garnered more than 5,500 corporate signatories from more than 130 countries. Of the 100 companies examined in this study, however, only 25 referred to support for the Global Compact, and a mere five provided a Global Compact "Communication on Progress" (COP)—the requisite review for signatories of their progress in implementing the initiative's principles.

As mentioned earlier, the Global Compact recognizes publication of a GRI report as satisfying its reporting requirement. Of the 25 declaring support for the Global Compact, four issued both a GRI index and a Global Compact COP, and 13 produced a GRI index and referenced the Global Compact. Another two referenced GRI indicators. Five enterprises made reference to the Global Compact but used neither a Global Compact progress report nor the GRI index. Of the 100 companies analyzed, 28 were listed on the UN Global Compact website as signatories. Therefore, of the 28, only 18 were in compliance with the Global Compact's reporting requirement.

By country, South African companies were the most likely to make a reference to GRI, with nine doing so, followed by Brazilian and Korean firms, each with five making reference. The same three countries' companies were also among the most likely to include a GRI index. Five firms each from Brazil and South Africa published GRI indexes, while four Korean companies did. South Africa also had the most companies making reference to The Global Compact, with five companies doing so, followed by Brazil with four, and China, India and Mexico, each with three.

[15] See the Global Reporting Initiative website at http://www.globalreporting.org.
[16] See The Global Compact website at http://www.unglobalcompact.org.

Figure 6. Number of Companies Referencing GRI and The Global Compact



Source: UNCTAD

IV. Comparisons to other Studies

A. Developed Countries

While sustainability reporting practices among the 100 emerging market companies analyzed for this report did not run deep, their performance in this area places them not far behind, and in some cases ahead of, developed markets. Although few of these efforts would qualify as a full-blown sustainability report by most estimates, 96 percent of the emerging markets companies reviewed for this paper reported on at least one ESG indicator. However, as noted, only 39 percent issued data on the environment, and only 24 percent reviewed key social indicators such as occupational injuries and illnesses. Furthermore, only 20 of the 100 companies studied made reference to the GRI's guidelines, and only 14 of those declared reporting in compliance with the GRI's guidelines and supplied a GRI Index.

Still, emerging markets companies held their own with, and in a few cases were more transparent than, firms from developed countries. As tracked by CorporateRegister.com, more than two thirds of the constituents in the Global FT 500 produce sustainability reports.[17] In addition, its recent report found that the percentage of these companies following GRI's reporting standards has increased in recent years, but is still only close to one third today. Similarly, KPMG reported that 80 percent of the Global Fortune 250 now releases sustainability information, up from 50 percent in 2005.[18] Among the world's largest exchanges, GRI found that 64 percent of Germany's DAX 30, 48 percent of France's CAC 40 and 22 percent of the United Kingdom's FTSE 100 issued sustainability reports using the *G3 Guidelines*, compared with only 13 percent of the United States' S&P 500.[19]

B. Emerging Markets

As mentioned earlier, the EMDP conducted its own original research in 2007 and 2008 and released reports on sustainability reporting trends in emerging markets in January 2008 and March 2009.[20] Both studies, like this one, reviewed only publicly available information. All three reports have small sample sizes of the largest companies, making it difficult to extrapolate findings beyond this top tier of companies, because larger companies are

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[17] CorporateRegister.com. (March 2009). CRReportingAwards '08, Global Winners & Reporting Trends. Retrieved June 15, 2009, from http://www.corporateregister.com/pdf/CRRA08.pdf.

[18] KPMG. (October 2008). KPMG International Survey of Corporate Responsibility Reporting 2008. Retrieved June 16, 2009, from http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008_v2.pdf.

[19] Global Reporting Initiative. (July 15, 2009). "Number of companies worldwide reporting on their sustainability performance reaches record high, yet still a minority." Retrieved July 16, 2009, from http://www.globalreporting.org/NewsEventsPress/PressResources/PressRelease_14_July_2006_1000GRIReports.htm.

[20] EIRIS. (March 2009). "A Review of ESG Practices in Large Emerging Market Companies." Washington, DC: Social Investment Forum and Sustainable Investment Research Analyst Network.
KLD Research & Analytics. (January 2008). "Sustainability Reporting in Emerging Markets: An analysis of the sustainability reporting in selected sectors of seven emerging market countries." Washington, DC: Social Investment Forum and Sustainable Investment Research Analyst Network.

generally far more likely to report and are often under greater pressure to do so. However, some basic trends emerged.

Coverage: In the study SIF published in January 2008, researchers analyzed public disclosures of 75 companies at the end of September 2007. They selected the top four companies in three sectors by float-adjusted market capitalization from the S&P/IFCI Index from the seven largest countries in the index—Brazil, China, India, Russian Federation, South Africa, South Korea and Taiwan. Also, in one case, a company was excluded because it was a holding company. The 2008 report focused on only three sectors—energy (oil & gas); materials (metals and mining) and telecommunications. In some countries there were fewer than four companies in one of the sectors chosen for analysis. In Taiwan, for example, there was only one energy company listed. In these cases, researchers did not make substitutions and analyzed fewer companies for these countries.

For the second study, conducted by EIRIS and published in March 2009, researchers chose a universe comprised of the largest four companies by market capitalization from 10 large emerging market countries—Brazil, China, India, Indonesia, Israel, South Korea, Malaysia, Mexico, Russian Federation and South Africa. Although the universe is considerably smaller, country and company selection for the March 2009 study was similar to this current report based on UNCTAD data.

Indicators: All three reports have somewhat distinctive criteria for company evaluation. For the January 2008 report, researchers asked whether each company:

- Had any public disclosure of ESG issues?
- Published a separate section of its website and/or annual report addressing sustainability issues?
- Issued a current (within the last two years) and stand-alone sustainability report?
- Referenced the Global Reporting Initiative (GRI) framework for its stand-alone report?
- Reported sustainability goals and benchmarks?

Meanwhile, the March 2009 report looked at a wide range of ESG criteria, including company disclosures on GHG emissions and other climate change indicators, biodiversity, human rights, supply chain metrics, health and safety, bribery and ethics, and board practices.

Findings: The key takeaways from the January 2008 report were:

- An impressive 87 percent of the companies in the sample made some sustainability disclosures.
- Just more than half of the 75 companies published a stand-alone sustainability report.
- Only 27 percent of the companies made reference to the GRI reporting framework in their reports.
- Of the three sectors reviewed, energy had the best overall disclosure, leading the other sectors in four of the five disclosure questions.
- Of the seven countries analyzed in the report, South Africa led in disclosure, while China had the greatest room for improvement.

Similarly, the March 2009 report found:

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

Analysis: All three studies found that almost all companies (83 – 96 percent) disclosed some type of ESG information, and the most common was governance related data. In addition, all three concluded that there was little depth to the information published. For example, both the 2008 report and this one found that few companies (20 to 31 percent) produced reports referencing GRI. All three concluded that the extractive industries were the most likely to disclose sustainability data on health and safety, as well as environmental performance, and were the most likely to be scrutinized on these issues and have controversies related to them. On a country basis, all three reports pointed to Brazil and South Africa as having the best disclosure practices. As mentioned earlier, both countries have exchanges with SRI indexes, and, in South Africa's case, there are listing requirements for the top 40 companies to disclose ESG data. All three studies gave China low marks, with the two 2009 reports also noting that India and Indonesia had some of the lowest levels of transparency. This latest report also gave Mexico a subpar grade on this count. All three reports point to a wide array of corporate practices and country norms.

V. Conclusions and Recommendations

Given the large differences in reporting practices among the emerging markets analyzed, it would make sense for EMDP country teams to take develop individual strategies for selecting companies and topics for engagement and setting interim goals. For example, in South Africa, where sustainability reporting is a common practice, at least among large companies, the country team should focus on bringing all companies into compliance with international disclosure standards such as the GRI's *G3 Guidelines* and the Carbon Disclosure Project's annual questionnaire. In China, India and Indonesia, where reporting is less common, teams should focus on supporting local institutional and consulting capacity and on targeting companies with little or no disclosure to encourage some basic reporting. Once reporting is universal, teams can start to examine and encourage better performance among companies in mitigating ESG risks and capitalizing on opportunities in these areas.

While country-specific issues and reporting needs are inevitable, all country teams should encourage companies to use the GRI's latest guidance, the *G3 Guidelines*, when reporting to ensure consistency and comparability in data. For SRI funds looking to develop portfolios including equities traded in several emerging markets, or global portfolios including companies from developed as well as developing economies, it is important to have comparable ESG information to make investment decisions. Even for investors looking to take a weighted, best-in-country approach, comparing relative ESG performance trends across countries would be a useful tool in establishing country weightings in an SRI investment vehicle. Others also would find comparable data useful in prioritizing engagement activities.

In all markets, it is important for country teams to encourage new investors to engage companies on the issue of sustainability reporting. As a first step, investors can make a commitment to support the EMDP and its activities by signing onto the EMDP *Investor Statement on Sustainability Reporting in Emerging Markets*. To date, investors with more than $960 billion in assets under management have signed onto the statement, although this represents only about 5 percent of the $18 trillion in assets under management held by UN PRI signatories. Getting more investors involved will only improve results from the corporate engagement efforts of all of the teams and tapping UNPRI signatories is a promising prospect. UN PRI signatories pledge to ask companies they invest in for "standardized reporting on ESG issues using tools such as the Global Reporting Initiative" and "ESG issues to be integrated within annual financial reports." A copy of the EMDP statement appears as an annex to this report on page 28. After all, ESG data is critical to all investors to evaluate a company's financial health and risk management, as this information augments financial analysis by indicating material risks and potential liabilities that are often overlooked by securities analysts.

As some of the best ESG reporting practices spring from countries with regulations, listing requirements and exchange-sponsored SRI indexes, investors also should use their leverage with government and stock exchanges to promote these reforms. Regulation and listing requirements are the fastest track for investors to achieve universal sustainability reporting. Therefore, efforts to promote these changes must be undertaken in parallel with those to engage companies individually to encourage ESG reporting.

Regular assessments of disclosure practices are needed to measure and promote progress. While the three baseline reports provide a uniform and sound baseline for measuring future progress, additional studies will be needed to measure the effectiveness of the EMDP's teams in improving corporate transparency and performance on sustainability. Subsequent reports will need to see how effective the teams have been in:

- Increasing the number of companies reporting ESG information.
- Bolstering the number of companies reporting using international standards such as the GRI's *G3 Guidelines.*
- Encouraging companies to use data reported to measure progress and improve ESG performance.

VI. Annex: List of Companies Examined by Country

Source: EMDP and UNCTAD
*** indicates Global Compact signatory**

Brazil

- AMBEV
- BANCO BRADESCO*
- BANCO ITAU HLDG FIN*
- CSN SIDERURGICA NAC'L
- GERDAU
- PETROBRAS*
- TELE NORTE LESTE PART*
- UNIBANCO UNIT*
- USIMINAS*
- VALE DO RIO DOCE*

China

- CHINA COMMUNIC CONSTRU
- CHINA CONSTRUCTION BK
- CHINA LIFE INSURANCE
- CHINA MOBILE*
- CHINA PETROLEUM and CHEMICAL CORP. (SINOPEC)*
- CHINA SHENHUA ENERGY
- CHINA NATIONAL OFFSHORE OIL CORP. (CNOOC)*
- ICBC
- PETROCHINA CO.*
- PING AN INSURANCE

India

- BHARAT HEAVY ELECTRICALS*
- HDFC BANK
- HOUSING DEV FINANCE CORP
- ICICI BANK
- INFOSYS TECHNOLOGIES*
- ITC*
- LARSEN and TOUBRO
- OIL and NATURAL GAS CORP.*
- RELIANCE COMMUNICATION
- RELIANCE INDUSTRIES

Indonesia

- ASTRA INTERNATIONAL
- BANK CENTRAL ASIA
- BANK MANDIRI
- BANK RAKYAT INDONESIA
- BUMI RESOURCES
- INDOSAT*
- INTERNATIONAL NICKEL INDONESIA
- PERUSAHAAN GAS NEGARA
- TELEKOMUNIKASI INDONESIA
- UNITED TRACTORS

Israel

- BANK HAPOALIM
- BANK LEUMI LE-ISRAEL*
- BEZEQ ISRAEL TELECOM.
- CHECK POINT SOFTWARE
- ISRAEL CHEMICALS
- ISRAEL CORP
- MA MAKHTESHIM-AGAN IND
- NICE SYSTEMS
- PARTNER COMMUNICATIONS
- TEVA PHARMACEUTICAL IND

Malaysia

- BUMIPUTRA-COMMERCE HLDGS
- GENTING
- IOI CORP
- KUALA LUMPUR KEPONG
- MALAYAN BANKING
- MISC
- PUBLIC BANK
- SIME DARBY
- TELEKOM MALAYSIA
- TENAGA NASIONAL

Mexico

- AMERICA MOVIL
- CEMEX*
- EMPRESAS ICA
- FOMENTO ECONOMICO MEXICANO SA DE CV (FEMSA)*
- GRUPO FINANCIERO BANORTE
- GRUPO MEXICO
- GRUPO TELEVISA CPO

- INDUSTRIAS PENOLES CP
- TELEFONOS MEXICO
- WALMART MEXICO

Russian Federation

- GAZPROM
- LUKOIL HOLDING*
- MOBILE TELESYSTEMS*
- NORILSK NICKEL
- NOVATEK GDR
- SBERBANK RUSSIA
- SURGUTNEFTEGAZ
- TATNEFT COMMON
- UNIFIED ENERGY
- VIMPELCOM

South Africa

- ANGLO PLATINUM
- ANGLOGOLD ASHANTI*
- FIRSTRAND*
- GOLD FIELDS
- IMPALA PLATINUM HOLDINGS*
- MTN GROUP
- NASPERS
- REMGRO
- SASOL*
- STANDARD BANK GROUP

South Korea

- HYUNDAI HEAVY INDUSTRIES
- HYUNDAI MOTOR CO.*
- KEPCO KOREA ELECTRIC POWER
- KOOKMIN BANK*
- KT and G CORP(KOREA TOBACCO)
- LG ELECTRONICS
- POSCO
- SAMSUNG ELECTRONICS CO
- SHINHAN FINANCIAL GROUP*
- SHINSEGAE CO

VII. Annex: EMDP *Investor Statement on Sustainability Reporting in Emerging Markets*

A. Statement (Published in June 2008)

Introduction: Global institutional investors representing more than $960 billion in assets under management encourage companies in emerging markets to provide better information on their management of environmental, social, and corporate governance (ESG) issues. Often called "sustainability reporting", such information can help investors determine which companies are best positioned to deliver strong long-term investment performance.

Companies increasingly understand that effective management of sustainability challenges and opportunities can contribute directly to financial success by:

- Allowing companies to reach a broader range of investors
- Achieving greater operational efficiency
- Improving enterprise-wide risk management
- Making more strategic capital expenditures decisions
- Enhancing customer loyalty and developing new customers
- Improving brand positioning
- Developing market leadership

However, in order for such actions to be properly valued by financial markets, companies must disclose information about their ESG programs and the progress made toward meeting specific ESG business objectives. For this reason, over 2,300 global companies, including more than half of the global Fortune 250, issued sustainability reports in 2006, according to CoporateRegister.com.

Sustainability disclosure in emerging markets: As the role of emerging market companies in the global economy increases, so do investor expectations for these companies. Emerging markets represent important investment areas, but a lack of transparency can hamper potential investment. Specifically, investors often do not have enough information on the manner in which companies in emerging markets have assessed and responded to risks and opportunities related to sustainability issues—and how these risks and opportunities might affect future financial performance and valuation.

In particular the signatories of this statement encourage all companies to enhance transparency by working towards:

- Providing regularly updated ESG disclosure in financial reports or in specialized sustainability reports, focusing on the most material business risks and opportunities.
- Setting clear goals and disclosing progress towards meeting targets.
- Utilizing the Global Reporting Initiative (GRI) framework in preparing their reports. At a minimum, we recommend that companies list exactly which GRI indicators are addressed in their reports as part of a "GRI Index."

- Continually improving reporting based on feedback from key stakeholder groups, including both financial stakeholders and non-financial stakeholders, such as employees, customers, and relevant community and civil society groups.

Why sustainability reporting: Disclosing environmental and social performance data is critical to investors for evaluating:

- Financial health and risk management, as this information augments financial analysis by indicating material risks and potential liabilities that are often overlooked by general accounting standards.
- Management quality, as ESG issues management can be used as a proxy for strong corporate governance and serve as an indicator of a company's overall management quality.
- Competitive positioning, as firms in emerging markets are increasingly competing globally and will be assessed according to their ability to comply with evolving international standards such as the European Union's Restriction of Use of certain Hazardous Substances Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) regulations.
- In addition, home country standards are changing quickly and creating opportunities for companies with forward looking environmental and labor policies and programs to distinguish themselves.
- Growth potential, as there is a large and growing body of evidence indicating that companies that are pro-active environmental stewards, responsive corporate citizens, and strong employers, are more likely to create long-term shareholder value.

Why the GRI: We urge companies to use the GRI Sustainability Reporting Guidelines ("Guidelines") to inform company reporting, and in so doing, increase the credibility, comparability, and utility of their reporting efforts. A GRI-based report also serves as a strong "Communication on Progress" for corporate signatories of the Global Compact.

The Global Reporting Initiative (www.globalreporting.org) is an international organization developed by businesses working with a broad base of global organizations. The GRI provides guidance on sustainability reporting process and content through the GRI Guidelines, a flexible reporting system that allows companies to focus on the issues most relevant to company operations. More than 1,000 organizations globally currently use the GRI Guidelines in developing their sustainability reporting. A recent report by the Sustainable Investment Research Analyst Network (SIRAN) showed that 27 percent of large emerging market companies in three sectors now reference GRI in their public sustainability reporting.

Conclusion: This group of signatories believes that the next generation of leading companies will distinguish themselves through their commitment to sustainability, as demonstrated through robust sustainability reporting, and will be correspondingly rewarded by the market.

B. Signatories as of December 2009

Investors
APG Asset Management
Australian Ethical Investment Ltd.
Bank Negara Indonesia (BNI)
Batirente
Boston Common Asset Management, LLC
Calvert Investments
Clean Yield Group
DnB NOR Asset Management
Dexia Asset Management
Domini Social Investments LLC
E. Capital Partners International SA
EcoFrontier
Element Investment Managers
EM Capital Management, LLC
The Ethical Council (AP1, AP2, AP3, and AP4), Sweden
The Ethical Funds Company
F&C Management Limited
Fortis/BNP Paribas
Futuregrowth Asset Management
Government Employees Pension Fund of South Africa
Harrington Investments, Inc.
Henderson Global Investors, Sustainable and Responsible Investment
Inhance Investment Management, Inc.
Jamsostek
Macif Gestion
Minaca Selaras
MMA
Mn Services N.V.
Neuberger Berman Socially Responsive Fund
New York City Pension Funds
NorthStar Asset Management
Pax World
PREVI – Caixa de Previdência dos Funcionários do Banco do Brasil
Responsible Research
Santa Fé Portfólios
Santander Asset Management
SNS Asset Management N.V.
Trillium Asset Management Corporation
Walden Asset Management, a division of Boston Trust & Investment Management Company
Winslow Management Company

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Conservation International
Centre for Australian Ethical Research (CAER)
Centre Info
CERES
Ethical Investment Research Services Ltd. (EIRIS)
European Social Investment Forum (EuroSif)
Indonesia Stock Exchange
IndonesiaWISE
Innovest (now part of RiskMetrics Group)
Jantzi Research Inc. (now part of Sustainalytics)
KLD Research & Analytics (now part of RiskMetrics Group)
Korea CSR Research Service (KOCSR)
RiskMetrics Group
Shareholder Association for Research and Education
Sustainable Ventures