

Accomplishment Report

Project: The Business Case for Sustainability Practices: Examining Stakeholders' Perceptions of CSR Performance

Purpose: With the gradual emergence of the business case for CSR, stakeholders are increasingly getting concerned about the costs and benefits of companies' CSR performance. In October 2015, SGX announced that it will be mandating that all listed companies publish sustainability reports in a "comply or explain" approach by 2017. Despite the anecdotal evidence on the growing importance of CSR, there is scant research evidence that shareholders and financial analysts actually pay attention to companies' CSR performance.

Our intention is to conduct research with the intent to raise long-term awareness in Singapore that important capital market stakeholders consider CSR performance when evaluating companies' performance. The study will be conducted in both the U.S. and Singapore setting. The U.S. data is used as it has the world's largest capital market and would help convince ASEAN audience that the phenomena is not limited to Singapore. Our study will have significance in lending support to the business case for CSR. With research evidence that investors and financial analysts care about CSR performance, it would be imperative that senior management and board of directors consider CSR activities as part of their overall business strategy. Accountants should also be ready to compile and report on the necessary information associated with CSR activities in order to support companies' investor relations strategy.

Results and Outcomes Expected:

In the overall program, a manuscript (see attached) has been completed and currently is under peer review for publication at the Journal of Business Ethics. An abstract of the manuscript is as follow:

We hypothesize that corporate social responsibility (CSR) can be indicative of not only managerial ethics and integrity but also future firm performance, and examine whether investors and analysts consider CSR performance when they assess firms' disclosures of actual and forecasted earnings. We find that only adverse CSR performance affects investors' assessments of these disclosures. In contrast, we find that both positive and adverse CSR performance affect analysts' forecast revisions in response to firms' disclosures. We also find that firms with adverse CSR performance exhibit lower disclosure quality, earnings persistence, and earnings growth. However, we do not find that firms with positive CSR performance exhibit higher levels of these measures. This asymmetric result is consistent with investors', but not analysts', assessments of the effect of CSR performance on corporate disclosures. Overall, our results suggest that investors and analysts consider CSR when assessing the information in earnings-related corporate disclosures.

ASEAN CSR financial support has been acknowledged in the manuscript and would be kept informed when the manuscript is published in an academic journal.

For the study using Singapore listed companies, the following activities have been completed:

To ensure the viability of the project, we first limit the scope of the project by focusing on the Singapore Stock Exchange (SGX) listed companies that constitutes as a component or reserve of the Straits Times Index (STI) from 2012 to 2105.

We collect and gather information such as (i) annual reports, (ii) CSR reports, (iii) CSR website, and (iv) Investor Relations website information for the following 46 companies:

	<i>Company Name</i>		<i>Company Name</i>
1	AREIT	24	Singtel
2	Capitaland Trust REITS	25	Starhub
3	Capitaland	26	Thai Beverage
4	Capitalmall Trust	27	UOB
5	City Developments Ltd	28	UOL
6	Comfort Delgro	29	Wilmar Intl
7	DBS Ltd	30	Yangzijiang
8	Genting PLC	31	Noble Group
9	Global Logistic	32	Jardine Matheson
10	Golden Agri-Resources	33	Jardine Strategic
11	Hongkong Land Holdings	34	Olam
12	Hutchison Properties	35	Capital Mall Asia
13	Jardine C & C	36	Fraser & Neave
14	Keppel Corp	37	IHH Healthcare
15	OCBC	38	SMRT
16	SATS	39	Cosco Corporation
17	Sembcorp Industries	40	Neptune Orient
18	Sembcorp Marine	41	First Resources
19	SIA Engineering	42	Singapore Post
20	Singapore Airlines	43	Suntec REIT
21	Singapore Exchange	44	Keppel REIT
22	Singapore Press Holdings	45	M1
23	Singapore Tech	46	Yanlord Land

After collecting the three years of relevant information, we attempt to assess the CSR performance of these companies for each year from 2012 to 2015.

CSR performance (both strength and controversies) are assessed in terms of (i) Environment; (ii) Social (Community, Diversity, & Employee Relations, & Product) and (iii) Governance.

ENVIRONMENT	Ratings	Descriptions
ENV- strength -A	Beneficial products and services	The company derives substantial revenues from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits. (The term "environmental service" does not include services with questionable environmental effects, such as landfills, incinerators, waste-to-energy plants, and deep injection wells).
ENV- strength -B	Anti pollution and radiation protection	The company has notably strong anti-pollution and radiation protection programmes. For example, noise control, air pollution control, water pollution control, soil pollution control, chemical safety, radiation prevention etc
ENV- strength -C	Recycling	The company either a user of recycled materials as raw materials in its manufacturing processes or a major factor in the recycling industry.
ENV- strength -D	Clean energy	The company has taken significant measures to reduce its impact on climate change and air pollution via use of renewable energy and clean fuels or via energy efficiency. The company has committed to promote climate-friendly policies and practices outside its own operations.
ENV- strength -E	Environment management system / Certification	The company has demonstrated a superior commitment to environment management systems through ISO14001 certification, awards and other voluntary programmes.
ENV-con-A	Hazardous waste	The company's liabilities for hazardous waste sites or the company has recently paid substantial fines or civil penalties for waste management violations
Or	Regulatory problems	The company has recently paid substantial fines or civil penalties for violations of air, water, or other environmental

		regulations, or it has a pattern of regulatory controversies.
ENV-con-B	Substantial emissions	The company's legal emissions of toxic chemicals from individual plants into the air and water are high.
or	Agricultural chemicals	The company is a substantial producer of agricultural chemicals, ie., pesticides or chemical fertilizers.
ENV-con-C	Climate change	The company derives substantial revenues from the sale of coal or oil and its derivative fuel products, or the company derives substantial revenues indirectly from the combustion of coal or oil and its derivative fuel products.
ENV-con-D	Other concern	The company has been involved in an environment controversy that is not covered in other ratings.
COMMUNITY		
COM-strength-A	Charitable giving	The company has consistently given substantial amount to charity, or has otherwise been notably generous in its giving.
Or	Innovative giving	The company has a notably innovative giving programme that supports non-profit organisations, particularly those promoting self-sufficiency among the economically disadvantaged.
COM-strength-B	Support for housing	The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged, e.g.,
Or	Support for education	The company has either been notably innovative in its support for primary or secondary school education, particularly for those programs that benefit the economically disadvantaged, or the company has prominently supported job-training programmes for youth
COM-strength-C	Volunteer programs	The company has an exceptionally strong volunteer programme for staff.
COM-strength-D	Other strength	The company has either an exceptionally strong in-kind giving programme or engages in other notably positive community activities. (eg. yellow ribbon , sponsorship, etc)

COM-con-A	Negative economic impact	The company's actions have resulted in major controversies concerning its economic impact on the community. These controversies can include issues related to environmental contamination, water rights disputes, plant closings, "put-or-pay" contracts with trash incinerators, or other company actions that adversely affect the quality of life, tax base, or property values in the community.
COM-con-B	Tax disputes	The company has recently been involved in major tax disputes in Singapore or outside Singapore
COM-con-C	Other concern	The company is involved with a controversy what has mobilised community opposition, or is engaged in other noteworthy community controversies. (eg. boycott, etc)
DIVERSITY		
DIV- strength -A	CEO / Chairperson	The company's chief executive officer/chairperson is a woman or a member of a minority group.
Or	Board of directors	Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12.
DIV- strength -B	Work/Life benefits	The company has outstanding employee benefits or other programmes addressing work/life concerns, eg, childcare, elder care, or flextime.
DIV- strength -C	Employment of the disabled	The company has implemented innovative hiring programmes; other innovative human resource programmes for the disabled, or otherwise has a superior reputation as an employer of the disabled.
DIV- strength -D	Other strength	The company has made a notable commitment to diversity that is not covered by other ratings
DIV-con-A	Non-representation	The company has no women on its board of directors.
DIV-con-B	Other concern	The company is involved in diversity controversies not covered by other ratings

PRODUCT		
PRO- strength -A	Quality	The company has long-term, well-developed, company-wide quality programme, or it has a quality programme recognised world-wide.
PRO- strength -B	R & D/ Innovation	The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to markets.
PRO- strength -C	Benefits to economically disadvantaged	The company has as part of its basic mission the provision of products or services for the economically disadvantaged
PRO- strength -D	Other strength	The company's products have notable social benefits that are highly unusual or unique for its industry.
PRO-con-A	Product safety	The company has recently paid substantial fines or civil penalties, or is involved in major recent controversies or regulatory actions, relating to the safety of its products and services, or product recall.
PRO-con-B	Marketing / Contracting concern	The company has recently involved in marketing/contracting controversies, or has paid substantial fines or civil penalties relating to advertising practices, consumer fraud, or government contracting.
PRO-con-C	Antitrust	The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing, or is involved in recent major controversies or regulatory actions relating to antitrust allegations.
PRO-con-D	Other concerns	The company has major controversies with its franchises, is an electric utility with nuclear safety problems, defective product issues, or is involved in other product-related controversies not covered by other ratings.
EMPLOYEE RELATIONS		
EMP-str-A	Union relations	The company has taken exceptional steps to treat its unionised workforce fairly.
EMP-str-B	No-layoff policy	The company has maintained a consistent no-layoff policy.
EMP-str-C	Cash profit sharing	The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.

EMP-str-D	Employee involvement	The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees; gain sharing, stock ownership, sharing of financial information, or participation in management decision-making.
EMP-str-E	Retirement benefits strength	The company has a notably strong retirement benefit programme.
EMP-str-F	Health and safety strength	The company has strong health and safety programmes.
EMP-str-G	Other strength	The company has strong employee relations initiatives not covered by other ratings.
EMP-con-A	Union relations	The company has a history of notably poor union relations.
EMP-con-B	Health and safety concern	The company recently has either paid substantial fines or civil penalties for willful violations of employee health and safety standards, or has been otherwise involved in major health and safety controversies.
EMP-con-C	Work-force reductions	The company has made significant reductions in its workforce in recent years.
EMP-con-D	Retirement benefits	The company has either a substantially under funded defined benefit pension plan, or an inadequate retirement benefits programme.
EMP-con-E	Other concern	The company is involved in an employee relations controversy that is not covered by other ratings.
GOVERNANCE		
GOV- strength -A	Anti-corrptions/whistleblowing	The company has anti-corrptions or whistleblowing system
GOV- strength -B	Transparency strength	The company is particularly effective in reporting on a wide range of social and environmental performance measures, or is exceptional in reporting on one particular measure. (eg. win award of SIAS (Securities Investors Association Singapore), or other awards).
GOV- strength -C	Other strength	The company has a unique and positive corporate culture, or has undertaken a noteworthy initiative not covered by the ratings.

GOV-con-A	Accounting concern	The company is involved in significant accounting-related controversies.
GOV-con-B	Corruption	The company has involved in corruption case or legal issues.
GOV-con-C	Other concern	The company is involved with a controversy not covered by other corporate governance ratings.

For each year from 2013 to 2015, CSR performance (both strength and controversies) are rated in terms of:

- (i) Environment;
- (ii) Social (Community, Diversity, & Employee Relations, & Product); and
- (iii) Governance.

In addition, we also assess the level of CSR disclosure with the following criteria:

- (i) Sustainability issues being mentioned in Annual Reports;
- (ii) Presence of a specific standalone webpage addressing sustainability issues;
- (iii) Presence of a standalone CSR website;
- (iv) Global Reporting CSR Framework being used; and
- (v) Auditor assurance on Sustainable Reports.

For comparison purposes, we also collected data from Bloomberg on these 46 companies as Bloomberg compile CSR ratings such as Sustainalytics and Bloomberg ESG Scores. The relevant comparison scores from Bloomberg have been obtained.

The CSR ratings were assessed by at least three different research assistants. As the ratings required detailed analyses of each company in the several categories of strength and weakness, completion of this stage took longer than expected. The three complete set of CSR performance ratings and levels of disclosure on these companies were completed only in January 2017.

Continuing Activities:

Currently, the next stage of data analysis is to first reconcile the subjective ratings by the three research assistants on rater agreement in each individual category before determination of the final ratings to be used in the statistical analyses, or if necessary, another independent research assistant to re-assess the ratings with high rater disagreement.

Due to the delay, an article on the CSR performance and the level of disclosure of these companies is not completed. Upon completion, we aim to create more awareness of CSR practices in Singapore companies through media articles or practitioner magazines.

These activities are currently supported by the matching fund provided by Nanyang Business School. ASEAN CSR financial support would be acknowledged and would be kept informed of the progress when the article is completed.