ESG Forum Report
Corporate Sustainability: Opportunities for Companies and Investors
Introduction

Hawkamah, the Institute for Corporate Governance, held the 1st ESG Forum which focused on corporate sustainability and the opportunities for companies and investors. The event, which was sponsored by S&P Dow Jones Indices, was held on December 12, 2017 at the DIFC Conference Center.

Hawkamah defines corporate sustainability as covering three key areas, Environmental, Social and Corporate Governance (ESG) that are increasingly recognized as essential elements for protecting and creating value for companies while positioning them for a better future.

The forum was opened by Dr. Ashraf Gamal El Din, CEO of Hawkamah, who underlined the importance of the ESG factors. Companies should not only concentrate on having good numbers on their financial statements but rather focus on how these numbers came to existence.

“It’s not only about the numbers; it’s about the story behind the numbers.”
Sunjiv Mainie, Managing Director, Global Research & Design, EMEA, S&P Dow Jones Indices, presented the global trends in the area of ESG investing.

He pointed out that with time we find out that certain investors start to become a clearer sense of what ESG really means.

Investors look at ESG through a variety of lenses, and accordingly there are many different indices to cater the different investor needs. ESG-driven, core-like, smart beta, and thematic ESG indices are only some of the indices available.

Within the ESG-driven indices he highlighted the S&P/Hawkamah ESG Pan Arab Index, which tracks the performance of companies that demonstrate superiority in the areas of environment, social, and corporate governance responsibilities when compared to other companies in the region. He noted that this Index has outperformed its parent Index, S&P Pan Arab Composite, by 5 % indicating a positive relationship between better ESG practices by companies and their share price valuation.

Sunjiv stressed that although there is still a long way to go, ESG investing has gained international momentum. Today governments are pushing through regulations, companies are issuing green bonds, millennials do not wish to invest in certain types of companies in their portfolio. So investors look at ESG factors, regulators are a key driver in some areas of the ESG and finally also demographics become really important.
Regional Trends

At this ESG Forum, Hawkamah also launched a report on trends in corporate reporting on ESG matters in the Middle East and North Africa region 2007-2017. In his presentation, Alec Aaltonen, Vice President, Hawkamah, highlighted some of the key findings of this report, which is available here.

The data is derived from Hawkamah’s work on the S&P/Hawkamah ESG Pan Arab Index, which monitors and ranks the transparency and disclosure practices of regional listed companies on ESG matters. The data is collected from company disclosure, i.e., annual reports, sustainability reports, corporate websites and stock market announcements, and it covers areas such as carbon emissions, water and energy consumption, employee health and safety, community investment, charitable giving, financial reporting, auditing, board independence and executive remuneration. The Index is re-calibrated annually for each financial year. The 50 companies which score the highest on the ESG criteria are included in the Index.

The report shows that the trends are encouraging in that the region has witnessed year-on-year improvements. Specifically corporate governance and disclosure practices within regional companies have improved drastically over the past decade. However, corporate reporting on environmental and social matters, despite of improvements, remains low.

However, there are companies in the region which have taken significant steps in their ESG journeys and this event revealed the new top 10 performers in this year’s re-calibrated index.

The Top 10 Companies in the re-balanced Index, as of December 2017, are:

TOP 10 Companies:

1st Place: DP WORLD
2nd Place: ADCB
3rd Place: aramex
4th Place: سابك النافدة

5th Place: ARAB BANK
6th Place: FAB First Abu Dhabi Bank
7th Place: البنك السعودي للاستثمار

8th Place: Bank Audi
9th Place: SAVOLA
10th Place: Zain
Panel Session

The Event closed with the panel session, moderated by Peter Montagnon, board member of Hawkamah, during which the panelists shared their views on regional corporate ESG reporting practices and its impacts.

Impact of ESG on companies

Belinda Scott, VP & Head of Corporate Sustainability, First Abu Dhabi Bank, mentioned that the S&P/ Hawkamah ESG Pan Arab Index took a very important role in the bank’s journey of becoming a more sustainable business as it validated the importance of the banks internal work on sustainability. Also looking at business opportunities, the company’s performance on the Index plays a major role.

Raji Hattar, Chief Sustainability Officer, Aramex International, emphasized the importance of integrated reporting when it comes to attracting new stakeholder as it reflects reassurance that a company is profitable and sustainable.

Looking at future employees, he mentioned, good financial statements do not longer attract in today’s world as the non-financial areas are becoming equally important.

Sustainability should not be fixed on a certain level but rather be a key driver throughout the whole organization. He outlined the importance of integrating sustainability awareness sessions within the earliest stages possible, while highlighting the common practice in Aramex, integrating these within their induction trainings.

Tarek Fadlallah, CEO, Nomura Asset Management (Middle East) enriched the panel with the investor perspective.

From the investor perspective the importance of the S&P/ Hawkamah Pan Arab Index derives from three key considerations: identification, inclusivity and engagement.

The Index simplifies the identification process of good governed companies and hence gives investors a universe of stocks out of which a diversified portfolio can be created. The Inclusivity of companies helps investors to market their portfolio by highlighting this listing. And finally the engagement, which opens up the possibility for dialogues between investors and company’s management on the company performance and improvements.

Importance of the separation of the ESG criteria

The panelists discussed the importance of the separation of the ESG criteria.

Sunjiv, sees this as a regional rather than global question but highlights the common fact that you cannot have a good E or S without the board recognizing these issues and the board driving these.

From the investors perspective the separation is very important as the governance, which is well developed, is driving returns but the environmental and social aspects are still lacking behind but coming, says Tarek.

ESG Index as tool to improve risk management

Belinda stressed the importance of the ESG Index as tool to improve risk management. The ESG Index plays an important role while updating and adjusting the banks risk policies and frameworks and helps driving the corporate behavior in different ways, she said.

Raji underlined the importance as risk management improvement tool. In his view there are many angles to look at but the biggest risk he sees comes through new regulation. All Countries are setting up new
regulations for companies on ESG criteria. So not applying these or even not being aware of new ESG criteria could lead to a big financial risk or even the loss of business. So for an improved risk management, he advises companies to basically be prepared, know what is happening around it and to make sure to be ready to have the proper ESG criteria in place.

ESG Engagement within the companies

“Never any c-level executive admitted that their company could need help on their corporate governance.”

Investors engage mainly with the Management, CFOs, and CEO’s on ESG matters, says Tarek. Interestingly, there is a common sense that Corporate Governance has to improve, he continues, but still every company thinks they in particular are doing fine.

Peter remarked, investors for example in the US quite often speak to the Board, the chairman or the independent director on these issues. He emphasized that the Institute of Business Ethics launched a survey which showed that out of the TOP 150 companies only 57% had a dedicated board committee on sustainability. This is an important remark as it shows that there is still a lot of space for improvements.