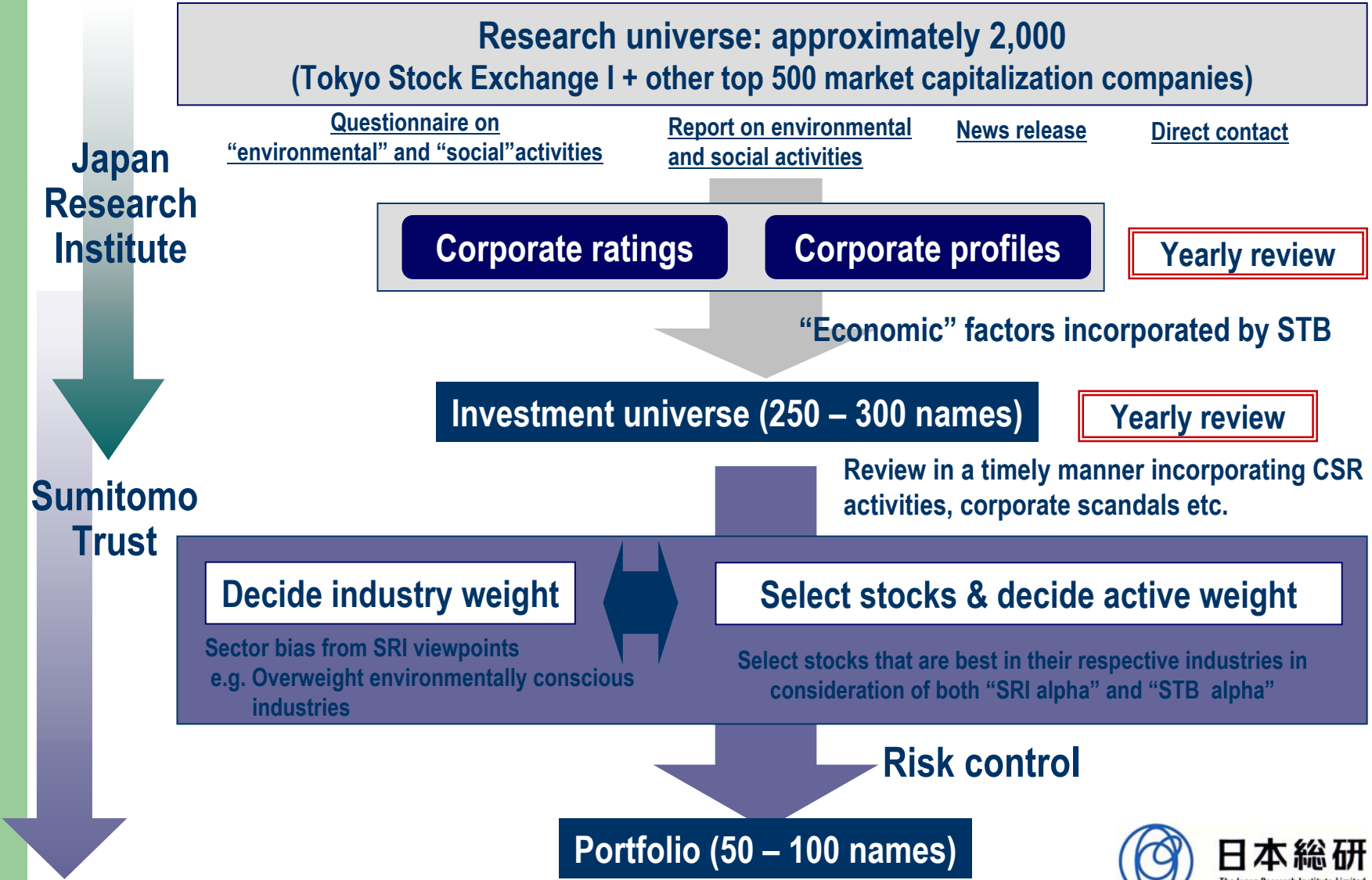


Rating in Practice

Eiichiro Adachi
Senior Researcher,
The Japan Research Institute, Limited



Overview of SRI process

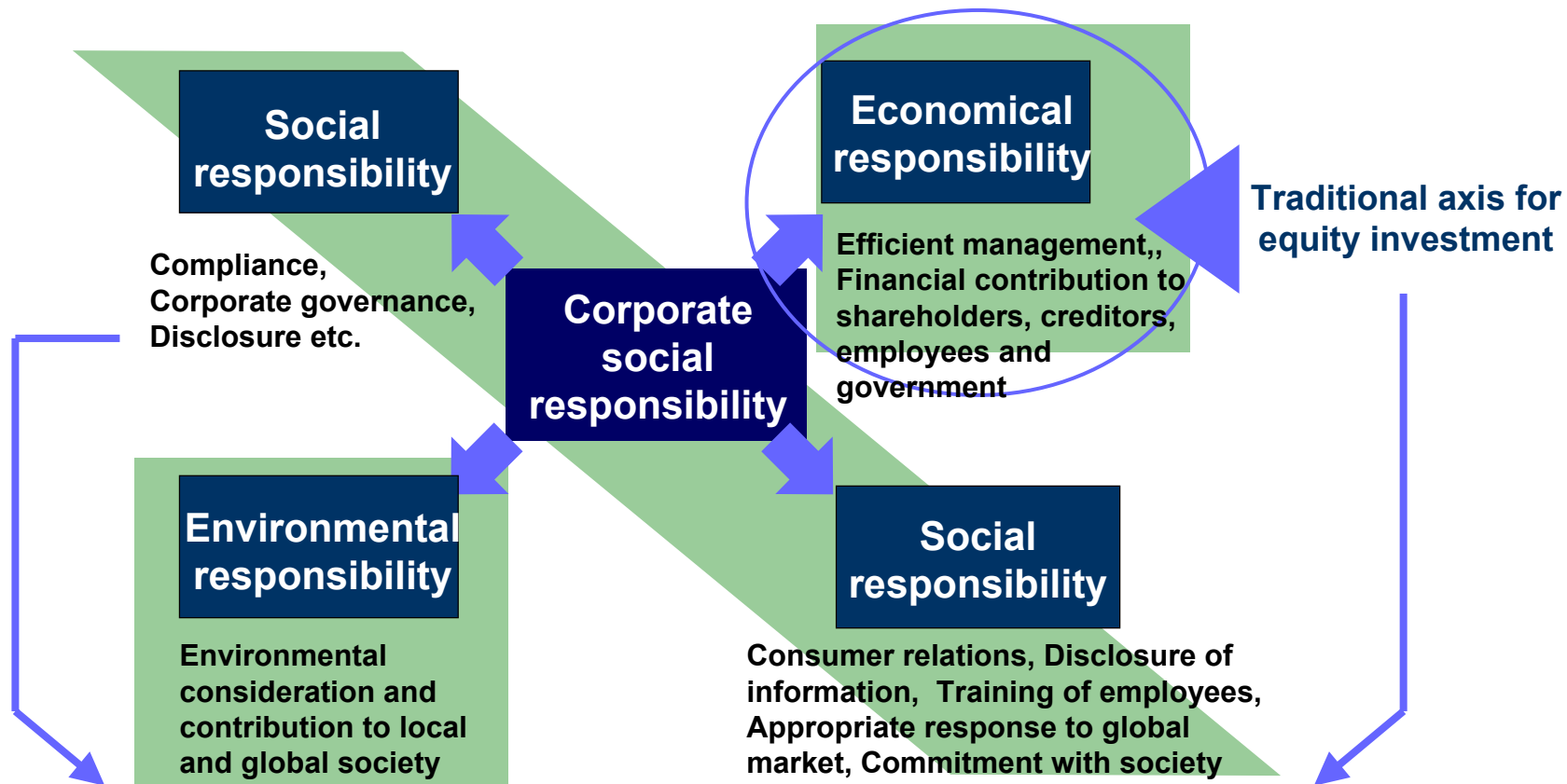


Our principle

- JRI believes that leading companies in terms of CSR are those who achieves :
 - Compliance with laws and regulations;
 - Advanced accountability and disclosure;
 - Good customer relations
 - Well-developed human resource management;
 - Sustainable operation in global market;
 - Enhanced relationship with society
 - Considerations for environmental issues
- In addition to good financial performance, of course



The 3 axes of evaluation



Evaluation axes that have not been paid enough attention to in the traditional equity investing

However they will largely contribute to minimize corporate scandal risk and improve brand value etc.

Research on questionnaires

- JRI Sustainability Analysis started in 1999 with the Environmental Questionnaire. Since then, JRI has conducted Sustainability Survey every year. In 2003, the Social Questionnaire was added to our Survey.
- Now, the Questionnaires are sent to 2,000 companies: about 1,500 companies listed in the first section of Tokyo Stock Exchange; and about 500 companies listed in the first or second section of Tokyo, Osaka or Nagoya Stock Exchange, and other markets such as JASDAQ.
- Survey is conducted via internet: <http://www.sohatsu.ne.jp/csr/>
- In 2003, About 500 companies responded to our Survey in total. About 200 companies answered to both of the Environmental and Social Questionnaires. About 300 companies replied only to Environmental Questionnaire, whereas less than 20 companies responded only to Social Questionnaire.



Image of the website for questionnaire

[\[環境方針\]](#) || [\[環境マネジメント\]](#) || [\[環境会計\]](#) || [\[環境コミュニケーション\]](#) || [\[環境パフォーマンス\]](#) I. II || [\[環境リスク/環境ビジネス・技術開発\]](#) || [\[海外\]](#)

1. 株式会社〇〇〇社における「環境に関する経営方針」について

環境方針は、環境保全への取組みや環境目的・目標の設定の基礎となる考え方を示すものです。また、その対象範囲は、連結環境マネジメントの推進状況を示す指標のひとつとみることができます。こうした観点から、次の設問にご回答下さい。

1-1 貴社において明文化されている環境方針はありますか？

- はい(⇒次の設問へお進みください。)
- いいえ (⇒このページの最後にある保存ボタンを押し、「2. 環境マネジメントシステム」へお進みください。)

【概要】

1-2 環境方針が対象としている事業所範囲は、貴社（グループ）のどの程度の割合といえますか？

% (半角英数字でご記入ください。)

1-3 「1-2」で割合をお答えいただいた際、分母として想定された範囲は次のいずれに該当しますか？

- 概ね全ての連結決算対象企業 (社) = (事業所)
- 自社および主要関連会社 (社) = (事業所)
- 自社の概ね全ての事業所 (事業所)
- 自社の一部の事業所 (例：工場のみ) (事業所)



Examples of environmental questions

Ecological responsibility (ER)

Environmental policy	Environmental performance
Environmental management system	• Resource input
Environmental accounting	• Water usage
Environmental communication	• Energy consumption
Environmental business/technology development	• Greenhouse gas emissions
Operation in global market	• Waste discharge
	• Water discharge
	• Product assessment
	• Green procurement (raw materials)
	etc.



Examples of social questions

Social responsibility

Legal Related responsibility (LRR)

- Organization for compliance**
- Measures for compliance**
- Response at the time of breach of compliance**
- Corporate governance**
 - Disclosure of information to shareholders and investors
- Accountability**
 - Management policy
 - Consideration of intellectual property etc.

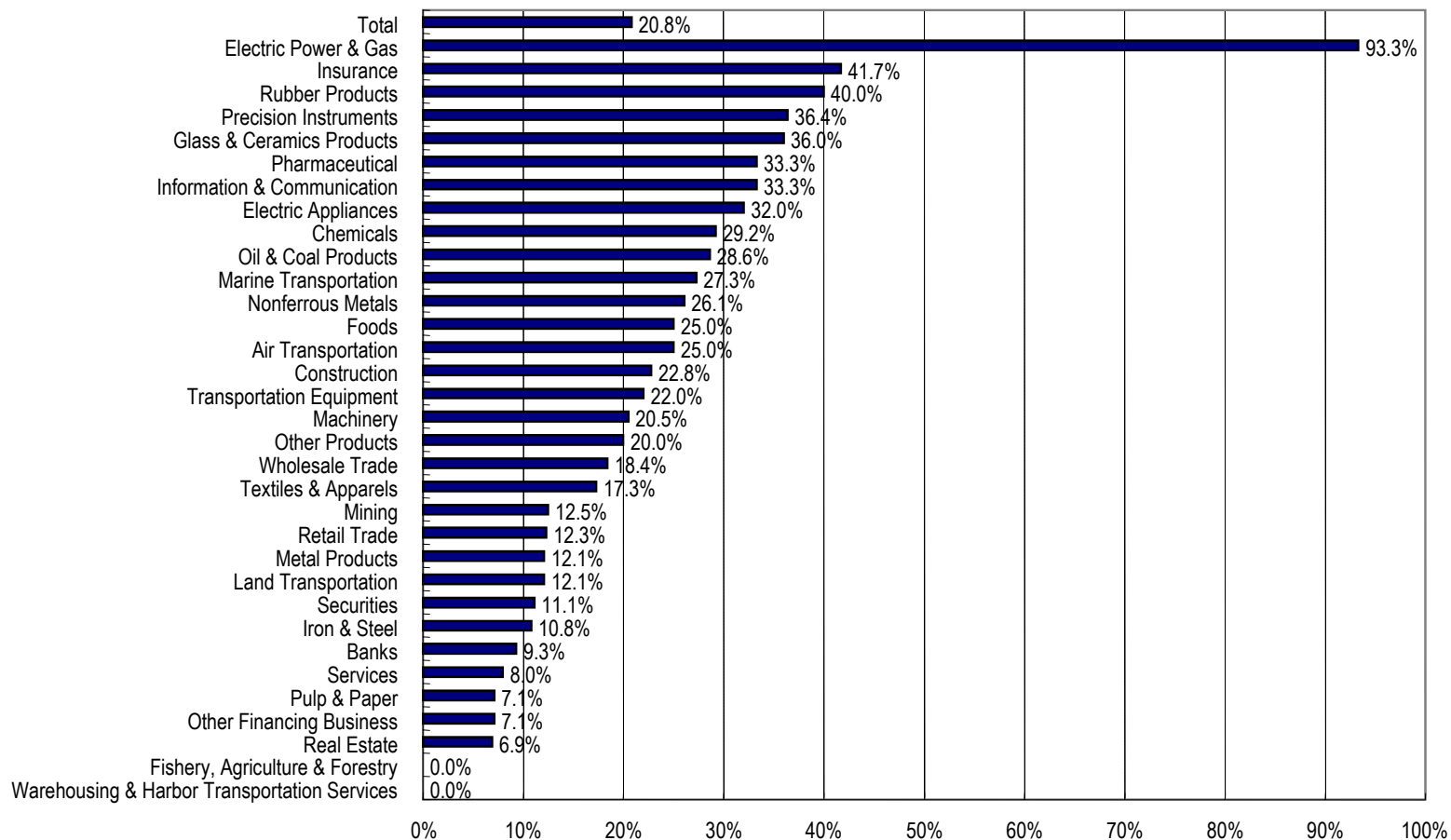
Other Social responsibility (OSR)

- | | |
|--|---|
| <ul style="list-style-type: none"> Customer relations <ul style="list-style-type: none"> • Safety of products and services • Disclosure of information on products and services • Reflect customers and consumers opinions Employee relations <ul style="list-style-type: none"> • Employability • Family friendly measures • Occupational health and safety • Diversity of employees | <ul style="list-style-type: none"> Operation in global market <ul style="list-style-type: none"> • Customer and employee relations • Supply chain management Commitment to society <ul style="list-style-type: none"> • Volunteering of employees • Collaboration with NGO/NPO • Collaboration with educational sector • Communication with local community, etc. |
|--|---|



Response rate on Env. questionnaire in 2002

- Sensitivity is quite deferent in each sector.

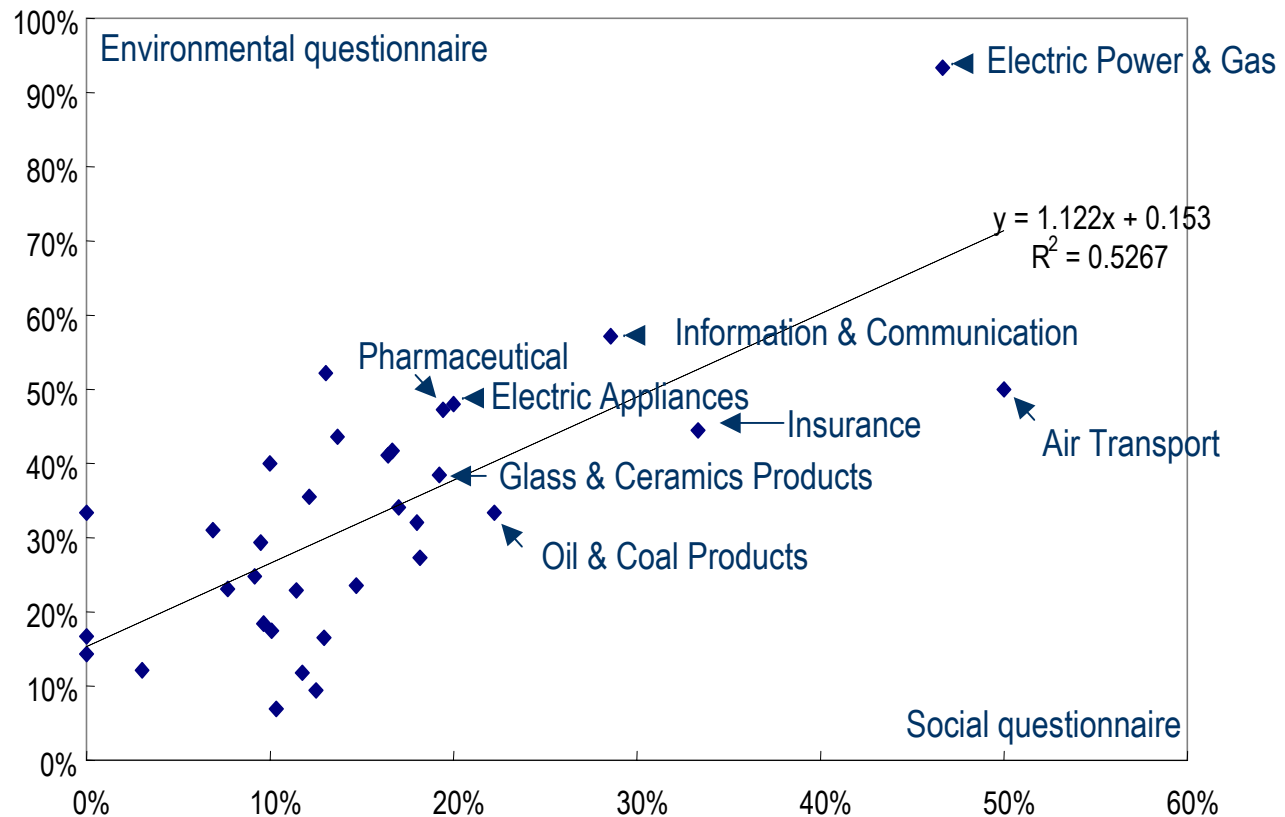


(Total number of valid response = 315)



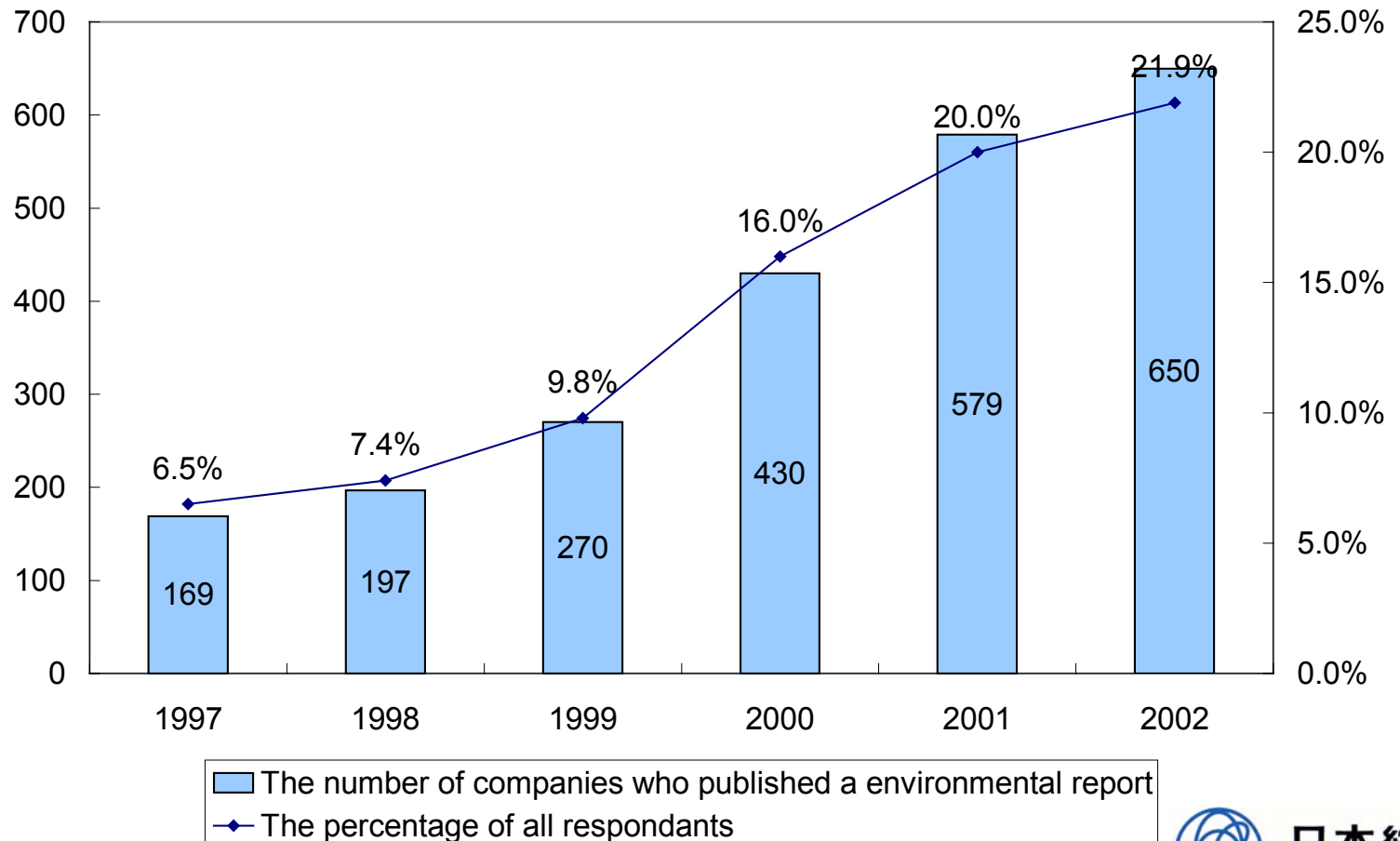
Response rate on questionnaires in 2003

- Sensitivity is quite deferent in each sector.



Research on environmental reports

- The environmental reports are other important source of information for our research.



(Source) Ministry of the Environment, Japan



Evaluation of companies (1)

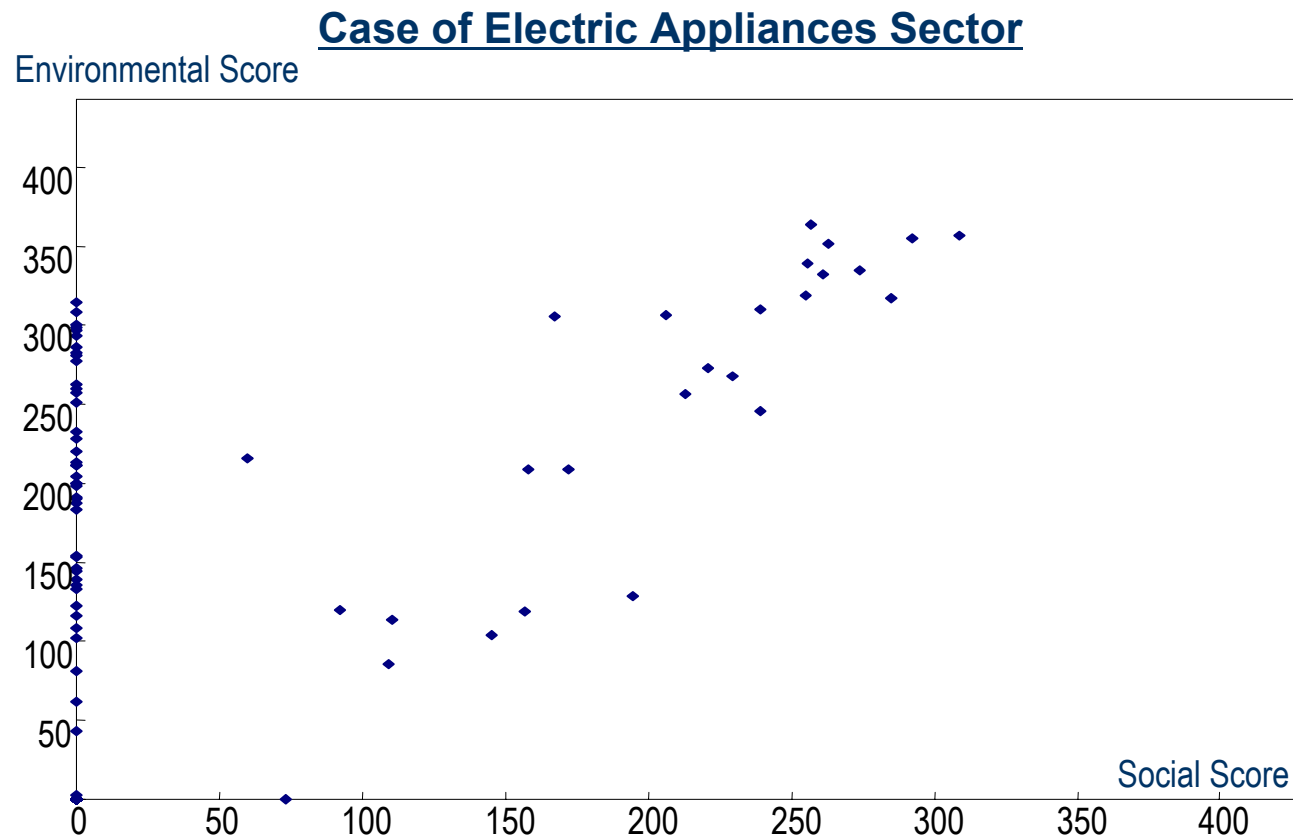
- Based on our research, appropriate scores are set to each question. The companies are grouped into the following 33 sectors according to Tokyo Stock Exchange. JRI adopts “best in class” approach, so the companies are rated within each sector.

Fishery and Agriculture	Mining	Construction	Food	Textile
Pulp and Paper	Chemical	Pharmaceutical	Petroleum	Rubber
Ceramics	Steel	Nonferrous Metal	Metal Goods	Machinery
Electrical Products	Transportation Apparatus	Precision Instrument	Other Manufacturing	Wholesale
Retail	Bank	Securities	Insurance	Other Financial
Real Estate	Land Transport	Marine Transport	Air Transport	Warehouse
Information & Communication	Electric Power and Gas	Service		



Positive correlation among environmental and social performance

- Integrated CSR rating is mostly consistent.

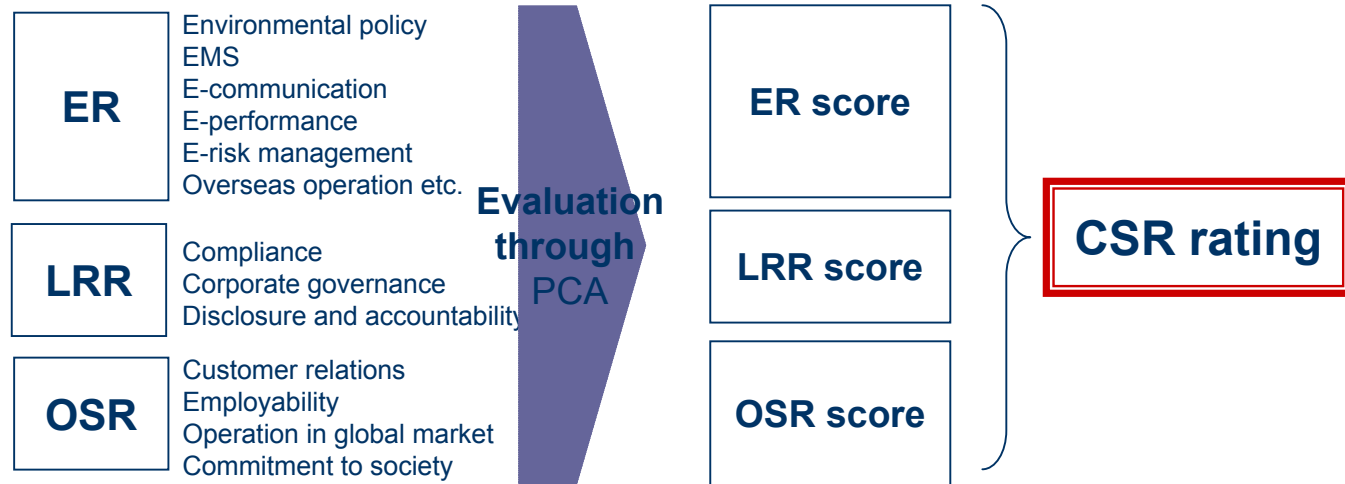


Evaluation of companies (2)

- The scores are summed up within each three pillar (ER, LRR, OSR). some of the questions, however, are excluded from evaluation, for they are regarded as those need further investigation for fair evaluation.
- For each three pillar (ER, LRR, OSR), in order to find appropriate weightings to extract the difference in the level of performance of each company, Principle Component Analysis (PCA) is applied, instead of simply summing up all points.
- At last, 3 pillars are weighted respectively as follows: ER(50%), LRR(25%) and OSR(25%). By summing up the principal component scores, the total score for each company is obtained. Thus, the ratings of companies are determined. To determine the final ratings, further research and analysis are sometimes carried out by analysts.
 - Principal Component analysis: One of the popular multi-variable analysis methods to find the weight for each variable that best describes the trend of the data.



Outputs for SRI fund managers



- Profiles Sheets for each company on environmental and social performance, which contain wide information from our Sustainability Survey and other information sources.
- Ratings within each sector (from A to C)
- Additional Information (ex. Monthly news topics, focus reports, etc.)