

# Rate the Raters Phase Five

## Questionnaire for Raters

### Newsweek Green Rankings

### May 2014

---

#### **Overview of Questionnaire**

The questionnaire covers five areas: Rating Overview, Governance and Transparency, Inputs, Research Process and Outputs. SustainAbility has developed a scoring scheme to evaluate raters' responses in the latter four areas, which we have made public on our website. We will not assign overall scores for ratings, but we will score specific criteria within the areas (e.g. Governance and Transparency). We will not make these scores public, but rather we will use them to identify good practice.

#### **Directions**

Please use space below each question to input your answers. While we have not set a minimum or maximum number of words for your responses, please answer the questions in sufficient detail for us to understand your practices. We have included guidance notes in italics. We recognize that certain questions may not be pertinent to every rating. If you find this to be the case, please indicate this and provide a brief explanation.

---

#### **0 Rating Overview**

##### **0.1.1 Rating Name**

Newsweek Green Rankings

##### **0.1.2 Please describe the primary objectives and motivations for your rating**

The goal is to measure companies' environmental performance in relation to their economic activity globally using eight rules-based, quantitative indicators. Environmental performance is assessed by looking at: (1) how productive companies are in terms of their energy, water and waste impacts; (2) companies' impacts on climate change by looking at levels of greenhouse gas emissions; (3) the extent to which environmental performance is integrated in the companies' governance practices; (4) the extent to which companies are transparent in the publication and verification of quantitative environmental data; and (5) the companies' reputational risk in relation to its environmental performance.

To ensure comparability of the assessments, companies are measured against their same GICS Industry Group peers only, not against companies across various industries.

Transparency is achieved by only using data points that are in the public domain; the full methodology is also made public.<sup>1</sup>

**0.1.3 How do you evaluate the impact or success of your rating? If so, how?**

We follow the reception informally in the press by setting up news alerts to track all related coverage. The success of the ranking is best measured by the high level of interest and engagement from the companies themselves; out of a total of 809 companies captured in the Global 500 and the U.S. 500,<sup>2</sup> 432 companies responded to our data verification request. Another way of tracking the success of the rating is the number of inquiries into the companies' assessments to be received after the publication of the ranking.

**0.1.4 Please identify your audience or customer base, and, if possible how they use your rating in their decision making.**

Our audience is both the *Newsweek* readership and the rated companies themselves. Other key stakeholders include the academic community, NGOs, and investors, who use the rankings for research and engagement.

---

## 1 Governance and Transparency

### 1.1 Disclosure of methodology

**1.1.1 Describe how you make available the details of your methodology to the public, rated companies and other stakeholders.**

A complete description of the Green Rankings methodology is posted at <http://www.newsweek.com/2014-newsweek-green-rankings-243744>. Additionally, we directly engage with companies as part of the research process; eligible companies are sent an email containing the full methodology and the data that is collected on their respective companies. Contact details of the Corporate Knights Capital's analysts are provided to respond to questions about the methodology and data to be used. Furthermore, Corporate Knights Capital held a webinar on April 4<sup>th</sup>, 2014 to explain the methodology and answer any questions from the attendees. A key findings webinar is scheduled for June 5<sup>th</sup>, 2014.

---

<sup>1</sup> See <http://www.newsweek.com/2014-newsweek-green-rankings-243744>

<sup>2</sup> The Newsweek Green Rankings consist of two separate rankings. The U.S. 500 ranks the 500 largest publicly-traded companies in the United States by market capitalization, while the Global 500 looks at the 500 largest publicly-traded companies globally by market capitalization. Given the overlap between these two universes, a total of 809 companies were researched in this year's project.

## 1.2 Conflict Management

### 1.2.1 Do you have a policy (or guidelines, standards, etc.) that addresses conflicts of interest? If so, is it disclosed publicly?

Corporate Knights Capital performs all of the analysis. Newsweek has no input in the methodology and construction of the ranking. In addition, we have a policy that specifically addresses conflicts of interest. It is disclosed publicly here:

<http://www.corporateknights.com/about> (see Policies tab)

### 1.2.2 Do you disclose the relationships and independence of board members, advisory panel members, partners and/or other involved third-parties? If so, how? How do you manage conflicts of interest with these entities?

None have arisen.

### 1.2.3 Do you offer for-fee services to the companies that you rate (including benchmark reports)? If yes, please describe these services. How do you avoid conflicts of interest in these situations?

Yes. Corporate Knights Capital offers benchmarking reports to rated companies.

### 1.2.4 Do you have any other financial relationships (e.g. sponsorships, advertising) with companies you rate?

No.

## 1.3 Regular Review

### 1.3.1 Do you have a regular approach to updating your methodology over time? If yes, describe this approach.

Corporate Knights Capital continuously monitors the sustainability disclosure landscape for changes in the availability of data. The methodology is reviewed annually to take into consideration such changes while bearing in mind the need to maintain consistency and comparability over time. Any suggested changes to the methodology are submitted to the Panel of Experts for comments and approval.

### 1.3.2 Describe how you communicate any changes in your methodologies to affected companies and other stakeholders, and how you work with them to adapt to and understand the implications of the changes.

Each year there is rigorous internal review by the research partners and *Newsweek*, followed by external review by the Panel of Experts. The methodology underwent some fundamental revisions in 2014. Details of these revisions are provided in an FAQ document that is posted online.

Corporate Knights Capital directly engages with companies as part of the research process; eligible companies are sent an email containing the full methodology and the data that is collected on their respective companies. Contact details of the Corporate Knights Capital's analysts are provided to respond to questions about the methodology and data to be used.

Furthermore, Corporate Knights Capital held a webinar on April 4<sup>th</sup>, 2014 to explain the methodology and answer any questions from the attendees.

## 1.4 Stakeholder Involvement (excluding rated companies)

### 1.4.1 Does the rating have an external and/or independent advisory body in place? If so, describe how this body is involved in the rating's construction and maintenance and the scoring, rating, or selection of companies.

Yes. The Green Rankings methodology and weightings were formulated in consultation with an eight-member Panel of Experts convened by Corporate Knights Capital. Members serve independently of their respective organizations. Members on the Panel of Experts are chosen to maximize diversity in terms of background (academia, business, non-profit etc.) and geography.

### 1.4.2 Describe how you involve / solicit feedback from external stakeholders in the development and ongoing maintenance of the rating. Please provide an example of how you revised your methodology based on stakeholder input.

In relation to the methodology for the 2014 Newsweek Green Ranking, the Panel of Experts made a suggestion to consider rewarding companies that report scope 3 greenhouse gas emissions. This suggestion was integrated into the scoring methodology as part of the Carbon Productivity indicator.

### 1.4.3 How do you communicate the output / summary from this engagement? For example, do you make public the stakeholder comments?

Not applicable

---

## 2 Inputs

### 2.1 Information Sources

#### 2.1.1 Please list and describe the information sources that you utilize to develop your rating.

We mostly use data that is publicly-available in the assessments. Data is obtained from Bloomberg, the CDP and corporate disclosures such as annual reports and sustainability reports. The Reputation score is obtained from RepRisk, an organization that independently provides ESG business intelligence and risk for various companies around the world (<https://www.reprisk.com/>).

#### 2.1.2 Please describe how this information is obtained (i.e. from publicly available documents, partner organizations, directly from companies). If your rating is based on other ratings or third-party research firms, please describe how they obtain their information.

Bloomberg primarily obtains its data from the companies' public disclosures including but not limited to annual reports, sustainability reports and proxy statements. In other cases, companies respond to Bloomberg's questionnaire and the responses are made available on Bloomberg's terminal.

The CDP's data are the company's responses to its questionnaire; the responses are available on [www.cdp.net](http://www.cdp.net) and through the Bloomberg terminal as well.

RepRisk ([www.reprisk.com](http://www.reprisk.com)) data was provided directly to Corporate Knights Capital.

**2.1.3 How often do you refresh information / inputs on companies?**

Annually, in preparation for each release of the Green Rankings.

**2.1.4 How do you deal with non-disclosure by companies in your rating?**

Companies are effectively penalized if they fail to disclose any of the indicators used in the Newsweek Green Rankings. For instance, if a company fails to disclose its energy use, which is information required by Corporate Knights to calculate the Energy Productivity indicator, the company would receive a score of "0", thus negatively affecting its overall performance in the ranking.

## **2.2 Company Engagement**

**2.2.1 Describe the process by which you engage / interact with the companies that you rate (i.e. frequency, nature, format).**

As mentioned above, Corporate Knights Capital collects required data for all companies in the project universe, assembles the data in an easy-to-understand spreadsheet, and sends the spreadsheet to all companies in the universe for verification. This sets the foundation for dialogue. Corporate Knights Capital does not blindly accept revisions to the data but rather requests companies to support prospective changes by providing links to publicly available sources for corroboration.

**2.2.2 On average, how much time do your analysts spend engaging with each rated company on an annual basis?**

In cases where engagement occurs, typically 1-3 weeks.

**2.2.3 Please describe if and how feedback from rated companies is incorporated into your research and ratings process.**

See 2.2.1.

## **2.3 Input Verification**

**2.3.1 Describe your approach to verifying the information used to assess companies. Is this approach captured in any sort of policy or guidance document?**

Corporate Knights Capital uses a variety of techniques to ensure that the data collected and used in the Newsweek Green Rankings is accurate and reliable. These techniques include statistical analysis of industry trends and year over year shifts in performance, as well as investigations of outliers. The approach is summarized in the FAQ document.

**2.3.2 Is external or third-party verification a consideration in assessing the quality of information sources? If so, please explain.**

No.

---

### 3 Research Process

#### 3.1 Experience and Capacity of Research Team

**3.1.1 On average, how many years of experience do your analysts (internal or contract) have working in or analyzing the industries they cover?**

5 years.

**3.1.2 Describe your approach to ongoing training and industry education for your analysts.**

UNPRI webinars, regularly review research from sell-side brokerages, and active liaison with academic institutions to make presentations and provide rankings for research projects.

**3.1.3 On average, how many companies do your analysts cover each year?**

Corporate Knights Capital currently has two full time analysts, and two part time analysts covering a research universe of 4,000 companies.

#### 3.2 Quality Management

**3.2.1 Describe your approach to ensuring quality control throughout the ratings process. Is this process documented or codified?**

See above

**3.2.2 Have your research systems or processes been certified, assured or verified by an external organization?**

Yes. Our Panel of Experts critiques and signs off on the research process annually.

#### 3.3 Sector Specificity

**3.3.1 Does your rating use the same criteria and weightings for all sectors and companies? If so, explain why.**

The methodology is fundamentally industry-specific, in the sense that companies are only scored against their global same-industry group peers. But the methodology itself, in terms of the weight assigned to each indicator, is held constant across industries.

**3.3.2 Describe how you take into account industry and company specific issues and context.**

As mentioned above, companies are only ever compared against their same-industry group peers.

### 3.4 Basis for Rating

**3.4.1 Describe the basis for your rating of companies, including how you determine what constitutes the different degrees of performance. For example, if you grade companies on an A-F scale, how do you determine these levels?**

Performance on the 8 indicators used in the project is done using percent ranking. This is to say, a company's raw score on each indicator is translated into a percent rank using all companies in Corporate Knights Capital's research universe (n=~4,000) that have the same industry classification. This step significantly improves the frame of comparison used to evaluate companies, and provides more meaningful analysis.

**3.4.2 Do you factor company-specific context into your rating?**

Yes. The four environmental impact indicators are normalized by company revenue (e.g. revenue / energy use for the Energy Productivity indicator).

**3.4.3 Do you incorporate external norms, standards or principles (e.g. UN MDGs, GRI, UNGC, etc.) into your rating or process? If so, describe how you use these to calibrate or assess company performance.**

Not explicitly. However, we reference corresponding GRI codes wherever relevant in our methodology to provide additional insight into our indicators.

**3.4.4 How do you deal with unforeseen, negative company events in your ratings process (e.g. environmental incidents, ethics breaches)?**

This is captured in the indicator titled "Reputation". It is driven by RepRisk research.

---

## 4 Outputs

### 4.1 Validation of Results

**4.1.1 Describe the steps you take to verify your rating results (including scores and reports) prior to their finalization.**

As described above, we verify all datapoints with other data providers (e.g. Bloomberg) and revisit the original source where there are discrepancies. We provide companies an opportunity to see their public data before it is published by us.

All algorithms, weighting formulas, and percentile scoring codes are reviewed by an external consultant to guard against errors.

**4.1.2 Do you give rated companies an opportunity to review draft scores or reports? If yes, describe this process, including timeframe given for review.**

Yes, see above.

**4.1.3 Do you have a formal policy and/or process for addressing challenges or disputes presented by companies or other stakeholders?**

We have an informal policy in place. We welcome feedback and take every effort to ensure the highest degree of accuracy in our research.

**4.2 Accessibility**

**4.2.1 Describe how you disclose and explain your results to rated companies. Do you share the full details of the assessment or results? If no, explain why not.**

Yes, full details are disclosed on the Newsweek Green Rankings website. <http://www.newsweek.com/2014-newsweek-green-rankings-243744> In addition, we are hosting a webinar on June 5<sup>th</sup> to discuss key findings.

**4.2.2 Describe how and to what extent stakeholders (other than rated companies) can access the details and results of your rating.**

Please see above.