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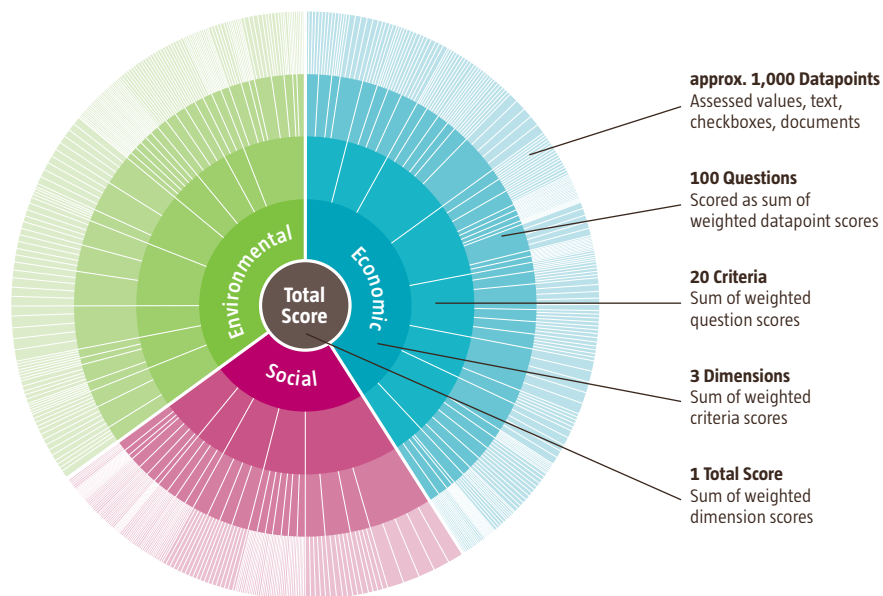
SAM Corporate Sustainability Assessment Europe Status Report 2019

The SAM Corporate Sustainability Assessment (CSA)

Established in 1999, the CSA evaluates companies ESG performance covering the economic, environmental and social dimensions. Using 61 industry specific questionnaires, it integrates long-term, intangible factors expected to have an impact on a company's business value drivers, including growth, profitability, capital efficiency and risk exposure. Companies receive a score between 0 – 100 and are ranked against other companies in their industry. The world's largest 3,500 publicly traded companies are invited to participate in SAM CSA for possible inclusion in the Dow Jones Sustainability Indices (DJSI).

The CSA has become the basis for numerous S&P ESG Indices over the last two decades attracting billions of USD in assets. CSA Scores down to criteria level are available through S&P Global's data platforms, total CSA scores for 3200 companies are publicly available on <https://yearbook.robecosam.com>.

Illustration of the CSA process from approximately 1,000 datapoints per company, to one Total Level SAM ESG Score.



Since January 2020 the SAM Corporate Sustainability Assessment, established by RobecoSAM, is issued by S&P Global. In addition, S&P Global acquired RobecoSAM's ESG ratings and benchmarking businesses which now operate out of S&P Global Switzerland. SAM is a registered trademark of S&P Global.

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Executive Summary

This first Europe Status Report provides insight into selected highlights from the 2019 SAM Corporate Sustainability Assessment (CSA), which assessed 518 companies from 23 European countries.

With participation varying widely across Europe, for country-specific analysis this report considers only the 10 countries with sufficiently large sample sizes (of at least 10 companies) to draw meaningful conclusions: Finland, France, Germany, Italy, the Netherlands, Russia, Spain, Sweden, Switzerland, and the United Kingdom. Nevertheless, when referring to the European performance, companies from all 23 countries in the region are taken into account.

The focus is primarily on companies from the invited universe in each country that have participated in the CSA by completing the comprehensive online questionnaire, with the “invited universe” referring to all companies eligible for the DJSI.

Europe stands out in terms of performance

In about half of the European countries – and in six of the 10 countries covered in this report – CSA participation rates increased in 2019. In line with trends seen in other regions, the number of European companies that are choosing to benchmark their sustainability performance is rising. However, participation rates are mixed across the region, ranging from 0% in Greece to 75% in Spain. With an average participation rate of 44%, Europe does not stand out in a global comparison compared for example to Latin America with an average rate of 46%. However, European companies’ higher Average Scores compared to their peers in Asia, Latin America, and North America seem to confirm Europe’s reputation as a global leader in sustainability thinking and sustainable investing.

European companies’ high Average Scores seem to confirm Europe’s reputation as a global leader in sustainability thinking and sustainable investing.

Nonetheless, there is still clear scope for improvement in Europe as well: Spain was the only country with an Average Score of more than 70 points in 2019, while economic heavyweights UK, France and Germany achieved averages of just 60, 65, and 62 points, respectively. Russian companies trailed with an Average Score of only 40 points which could be well explained by the high number of companies in the country that participated for the first time in the assessment. In a year-to-year comparison, Scores were relatively stable across the 10 countries analyzed, with five countries showing a slight decline and four countries a modest gain.

The distribution of Scores of actively participating companies by country shows similar top Scores for almost all examined countries: Eight of the 10 countries covered in this report have companies scoring in the high 80s, with Scores of 90 achieved by companies in Italy, the Netherlands, Spain, Switzerland, and the UK. Median Scores are highest in Italy and Spain, while again Russia lags. Compared to the regions of Latin America and Asia, European median Scores are relatively high as are the lowest scores within each of the bottom quartiles.

Combined with the Scores of companies that are non-active participants in the CSA, this confirms the findings of similar analyses for other regions: In Europe, as across the world, the inclusion of companies that are assessed solely on the basis of publicly available information results in a wider distribution of Scores. This wider spread is exclusively due to lower Scores in the bottom quartile across all European countries, with top Scores remaining unchanged. Most importantly, inclusion of non-participants reduces the median Score in all countries covered, and in most cases substantially. This clearly endorses the significance of the disclosure and transparency throughout the CSA process.

Europe's representation in the DJSI

The European countries best represented in the DJSI World are France, with 25 out of 78 eligible companies included in the global sustainability benchmark, followed by the UK (23 out of 138) and Spain (16 out of 25). Finland stands out with all six of its eligible companies securing a place on the DJSI World components list.

Environmental, Economic and Social Dimensions

The analysis of the sustainability performance of European companies overall and by country in the three Dimensions addressed by the CSA – Economic, Environmental, and Social – shows that European companies live up to the continent's reputation as a forerunner of sustainability management. All in all, Europe scores above the global average in all three dimensions.

Economic Dimension

Although European companies outperform their global peers in the Economic Dimension, their Average Score of just over 60 out of 100 (compared to a global average of 56) still points to significant room to further expand a leading position. Europe scores above the global average for all five "general" criteria in the Economic Dimension: Codes of Business Conduct, Materiality, Risk & Crisis Management, Corporate Governance, and Policy Influence. European companies also score above the global average for most industry-specific criteria. Spain takes the top position with an Average Score of 73, while Russia lags with a Score of 42.

However, Europe lags behind the global average on several Corporate Governance topics. In particular, board structure and the transparent definition of management ownership requirements as well as their actual implementation remain areas of weakness for many European firms, especially compared to their North American peers. Conversely, Europe stands out on diversity policy, gender diversity, and equal executive compensation between men and women.

Environmental Dimension

Europe's companies outperform their global peers in the Environmental Dimension with an Average Score of 67 compared to a global average of 61. Scores by country range from a low of 40 in Russia to a high of 84 in Spain – the same top and bottom showings as in the Economic Dimension.

Europe scores above the global average for all three "general" criteria in the CSA's Environmental Dimension that apply to all industries – Climate Strategy, Environmental Reporting and Operational Eco-Efficiency – and also outperforms the global average for all industry-specific criteria.

In the key Climate Strategy criterion, European companies outperform the global average in all 10 questions: management incentives, climate change strategy, financial risks of climate change, financial opportunities arising from climate change, scenario analysis, climate-related targets, climate strategy impacts, low-carbon products, Scope 3 GHG emissions, and internal carbon pricing. However, the analysis points to significant room for improvement in relation to the adoption of management incentives for the management of climate change issues.

The European countries best represented in the DJSI World are France, the UK and Spain. Finland stands out with all eligible companies securing a place on the DJSI World components list.

Social Dimension

Europe's Average Score of 58 in the Social Dimension tops the global average by 5 points. Spain, also in this dimension leads with a score of 75, while Russia lags with just 37.

Europe's Average Score is in line with the global average in the Corporate Citizenship & Philanthropy criterion and exceeds it in the other five "general" criteria that are applied to all industries in the Social Dimension: Human Capital Development, Human Rights, Labor Practice Indicators, Social Reporting and Talent Attraction & Retention. Europe also matches or exceeds the global average for the most common industry-specific criteria, including Financial Inclusion, Occupational Health and Safety, and Stakeholder Engagement.

Europe performs particularly well on the Corporate Citizenship & Philanthropy as well as Social Reporting criteria, but still has significant room for improvement in other key areas, particularly Human Rights but also Talent Attraction & Retention, Human Capital Development and Labor Practice Indicators.

Europe leads but can improve further

Overall, the CSA data for 2019 confirm Europe's long-standing reputation as the world's most advanced region when it comes to integrating sustainability in corporate strategy and business practices, with European companies scoring above their peers in North America, Asia-Pacific and Latin America across the Economic, Environmental and Social Dimensions of the questionnaire.

However, other regions, particularly Asia-Pacific, are catching up and there is still room for improvement in all aspects of European companies' sustainability performance. In addition, a relatively wide distribution of Scores in criteria such as gender equality in the workforce and incentives for management of climate issues shows that European companies with weaker results can still learn a lot from their neighbors.

European companies score on average above their peers in North America, Asia-Pacific and Latin America across the Economic, Environmental and Social Dimensions.

Introduction

Sustainability on the agenda at the highest level in Europe

At the time of writing this first Europe Status Report on corporate sustainability performance, the annual meeting of the World Economic Forum in Davos, Switzerland saw prominent European and global speakers calling on leading international figures to spearhead the transition to a sustainable economy. After the landmark Paris Climate Conference, COP 21, which marked a turning point when the climate emergency really became the issue of our age, Europe will host the next Conference of Parties, COP 26, in Scotland's largest city, Glasgow.

Shortly after outgoing Governor of the Bank of England, Mark Carney, had issued warnings to the financial sector over climate change, H.R.H. The Prince of Wales delivered a passionate speech at the World Economic Forum, stressing that "nature is not a separate asset class." In a separate keynote address, EU Commission President Ursula von der Leyen confirmed that the EU will „do what it takes to unlock the investment, innovation and the creativity that is needed“ to make Europe the world's first climate-neutral continent by 2050. To this end, she said, the European budget will mobilize EUR 1 trillion of investment over the next

decade to create a green investment wave – a goal that 44 of Europe's largest investors, representing EUR 6 trillion in assets, endorsed in December 2019 when they called on the EU to put climate neutrality into law.

With sustainability pushed to the top of public and private sector agendas across Europe, the stage is set for even more intensive scrutiny of environmental, social, and governance (ESG) developments across European nations (and beyond). Not only will this challenge companies across the continent to address and improve their sustainability performance – it will also create many opportunities for innovation, new business models and collaboration.

At this crucial moment in the transition to a more sustainable economy, this Europe Status Report provides a snapshot of companies' sustainability practices in a selected sample of European countries as measured by the SAM Corporate Sustainability Assessment (CSA). The CSA provides an annual evaluation of companies' performance across key economic, environmental, and social factors with a focus on both industry-specific and financial material criteria. Having raised the bar every year since it was established by RobecoSAM in 1999, the CSA is continuously enhanced to identify and measure under-researched and under-reported financially material ESG factors. As a result, it continues to detect those companies that are best positioned to address future sustainability-driven challenges and opportunities.

The EU will “do what it takes to unlock the investment, innovation and the creativity that is needed” to make Europe the world's first climate-neutral continent by 2050.

Corporate sustainability across 10 countries in Europe

This report explores these challenges and opportunities across 10 selected countries: Finland, France, Germany, Italy, the Netherlands, Russia, Spain, Sweden, Switzerland, and the United Kingdom. Through the 2019 CSA SAM assessed companies from a total of 23 countries in Europe. As this report provides a snapshot rather than a comprehensive, in-depth analysis of European companies' sustainability performance, it focuses its analysis on the countries in which more than 10 companies participated in the 2019 CSA. Additionally, the country-specific performance is being compared with the performance of all European companies that participated in the assessment.

This threshold ensures a sufficiently large sample size to draw meaningful conclusions. It is important to note, however, that the selection of these 10 countries does not indicate that these are considered to be the most sustainable countries, ahead of other European nations.

Table 1 shows the number of companies invited from all 23 European countries, and the percentage of companies that actively filled out the CSA questionnaire. Actively participating companies can add private information in addition to publicly available information to provide the most complete picture of their sustainability performance to SAM. "Invited companies" refers to the 3,500 largest public companies around the world (based on their free-float market capitalization) that were invited to participate in the CSA and to potentially qualify for inclusion in the Dow Jones Sustainability Indices (DJSI). More companies are assessed by the CSA throughout the year based on public information. In 2019, over 7,000 companies had their sustainability performance measured by the CSA.

Actively participating companies can add private information in addition to publicly available information to provide the most complete picture of their sustainability performance to SAM.

Table 1: Participation rates rise in many countries

	Number of invited companies	CSA Participation rate
Austria	9 –	56% ↑
Belgium	15 ↓	27% ↓
Czech Republic	3 –	67% ↑
Denmark	22 –	18% ↓
Finland	18 ↓	56% ↓
France	87 ↓	54% ↑
Germany	74 ↑	42% ↓
Greece	6 ↓	0% ↓
Hungary	3 –	33% –
Ireland	11 –	27% ↓
Israel	11 ↑	27% ↑
Italy	31 –	68% ↑
Luxembourg	3 –	33% –
Netherlands	33 ↑	58% ↑
Norway	17 ↑	24% ↑
Poland	18 ↓	6% ↑
Portugal	4 –	50% ↓
Russia	28 ↓	50% ↑
Spain	28 ↓	75% ↓
Sweden	42 –	38% ↑
Switzerland	49 ↑	55% ↑
Turkey	13 ↓	38% ↑
United Kingdom	152 ↓	39% ↓

The arrows ↓ ↑ indicate the year-on-year change between 2018 and 2019.

Source: SAM

In total, 266 European companies from the 10 countries in focus participated in the 2019 CSA. With approximately 1,000 data points per company collected through the CSA questions there is much information to draw upon. This report focuses on significant strengths and weaknesses illustrated by companies in the selected countries based on their responses to the questions and criteria across the three dimensions of the CSA.

Across each dimension, the industry-specific criteria and questions are weighted to arrive at a Total Level SAM ESG Score for each company. Throughout this report, unless otherwise specified, the results analyzed represent companies' Total Level SAM ESG Scores ("Scores"). Company Scores that are aggregated and averaged across countries and regions are referred to as "Average Scores".

At the time of writing this report, the otherwise dominant issue of climate change has been overshadowed by a "black swan" event in the shape of the coronavirus pandemic.

This report completes a series of reports which include the 2019 Latin America Progress Report and the 2019 Asia Progress Report. As the first Europe Status Report to be published by SAM, this report aims to draw a "line in the sand" at a very critical point in time for corporate sustainability performance measurement given the unprecedented sustainability challenges facing companies today – although, at the time of writing this report, the otherwise dominant issue of climate change has been overshadowed by a "black swan" event in the shape of the coronavirus pandemic that leaves even companies with the best risk and sustainability management vulnerable to uncontrollable external effects.

Table 2: Market capitalization of assessed and actively participating companies in the CSA 2019

	All assessed companies (% of market cap)	Actively participating companies (% of market cap)
Austria	73	73
Belgium	89	16
Czech Republic	84	84
Denmark	94	21
Finland	98	53
France	97	53
Germany	94	61
Greece	0	0
Hungary	100	30
Ireland	100	38
Israel	82	25
Italy	97	70
Luxemburg	84	52
Netherlands	87	65
Norway	83	19
Poland	57	3
Portugal	82	72
Russia	92	47
Spain	100	80
Sweden	91	39
Switzerland	94	82
Turkey	67	37
United Kingdom	86	51

Source: SAM

Overall Results – Europe

CSA participation strongest in Southern Europe

Across Europe more and more companies are choosing to benchmark their sustainability performance. In 2019, CSA participation increased year-on-year in six out of the 10 European countries covered in this report. Italy and Spain stand out with strong participation rates of 68% and 75%, respectively.

With a range from 0% in Greece to 75% in Spain, the spread of participation rates is similar to that in Asia-Pacific (from 6% in China to 78% in Thailand).

The spread in Latin America is smaller, ranging from 37% in Brazil to 80% in Colombia. Notably, besides Greece's singular lack of participation, the CSA results show a fairly significant participation gap between southern Europe and other nations, in particular. The UK has the largest number of invited companies (152), followed by France (87) and Germany (74). The CSA participation rates of companies in these countries are 39%, 54% and 42%, respectively. Arguably, this suggests that the companies in major western European economies are less interested in benchmarking their sustainability performance.

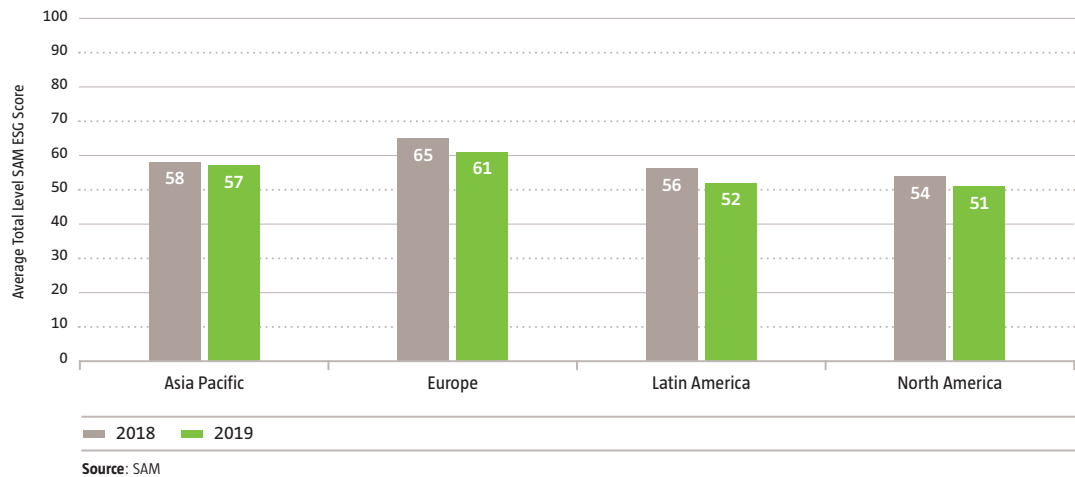
Across Europe more and more companies are choosing to benchmark their sustainability performance.

Average sustainability performance by region

While Europe does not stand out in terms of higher CSA participation rates, a regional comparison of Average Scores shows that European companies were ahead of their peers in Asia-Pacific, Latin America, and North

America in corporate sustainability performance for the second consecutive year in 2019, apparently confirming the continent's reputation as a global leader in sustainability thinking and sustainable investing.

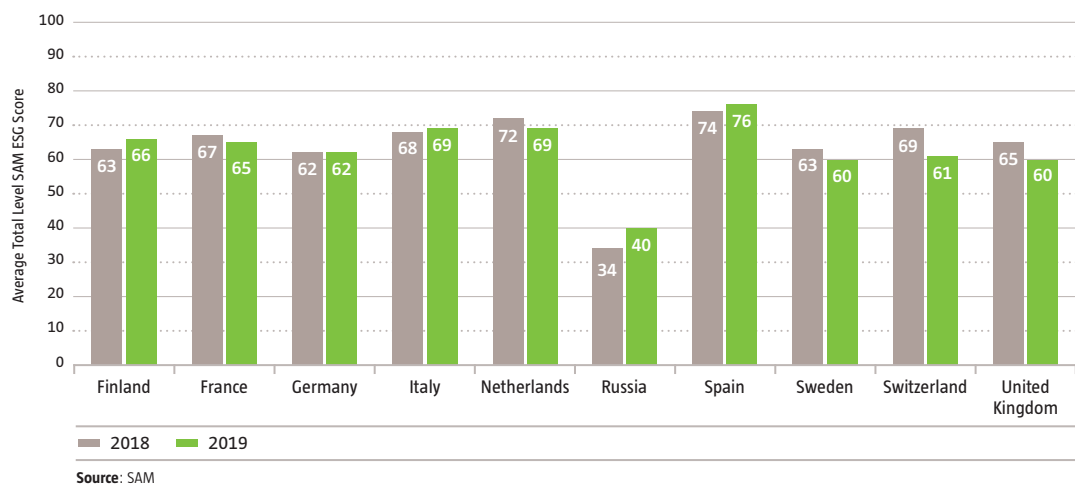
Figure 1: Europe outperforming the other regions



However, with the major European economies of the UK, France and Germany scoring averages of 60, 65, and 62 points, respectively, there is still clear scope for improvement in the region. In addition, the Average Scores of five of the 10 countries covered in this report declined slightly compared to 2018. Only four countries gained, while the Average Score of German companies remained unchanged. The higher participation rates may have had an impact on Average Scores as first-time

CSA participants still have to familiarize themselves with the questionnaire and may just be getting started in addressing sustainability. Out of the 10 countries covered, Spain is the only country with an Average Score of more than 70 points in 2019. Apart from Russia, which trails with an Average Score of 40 points, companies in all other European countries achieved Average Scores in the 60s.

Figure 2: Scores by country are relatively stable over the past year



Distribution of Scores by country

The following two figures provide further insight into the profile of company Scores in each country. For each of the 10 nations there are two bars representing 2018 and 2019. Divided into four areas, the darkest shading on each bar is the top quartile of companies, while the lightest shading represents the bottom quartile.

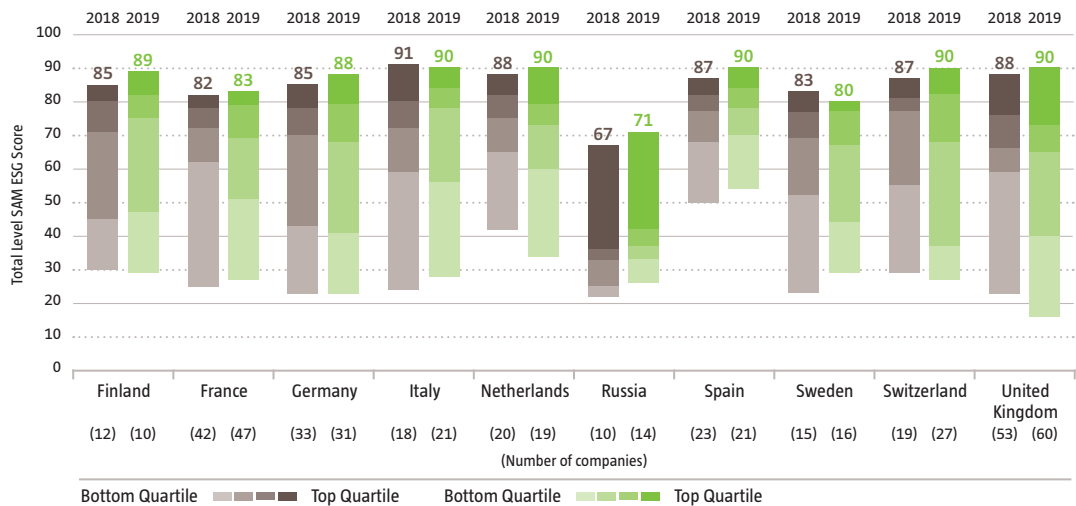
The middle line is the median company Score per country. The first figure represents only the companies that participated. The second figure combines these participating companies with additional companies that were assessed only via publicly available information.

Similar top Scores for almost all examined countries

The first figure shows that eight of the 10 European countries covered have companies scoring in the high 80s, with Scores of 90 achieved by companies in Italy, the Netherlands, Spain, Switzerland, and the UK. Russia trails with a maximum Score of 71 and France also lags slightly with a top score of 83. Among the five countries with the highest maximum Scores, the UK has the largest spread of Scores in its top quartile, while Italy's top 25% of companies are higher scoring overall. Italy and Spain also have the highest median Scores.

Russian companies lag but this could be well explained by the high number of companies in the country that participated for the first time in the assessment. Compared to the regions of Latin America and Asia-Pacific, European median Scores are relatively higher as are the lowest Scores within each of the bottom quartiles. This again confirms Europe's position as a region that has an understanding of how to address corporate sustainability, better than counterparts around the world.

Figure 3: Score distribution of actively participating companies

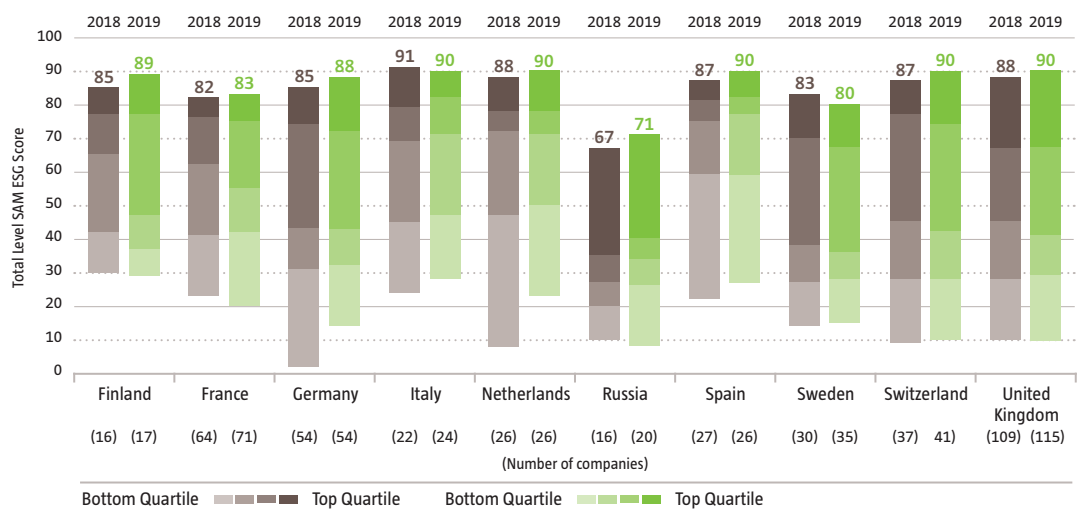


Lower Scores for non-participating companies

A combination of participating companies and companies that were assessed only via publicly available information results in a wider distribution of Scores. This is consistent with results for other regions. In Europe, the wider spread is exclusively due to lower Scores in the bottom quartile across all countries, with top Scores remaining exactly the same. Inclusion of non-participants reduces the median Score in all

countries covered, and in most cases substantially, with median Scores in the Netherlands, Spain, Russia and Italy declining significantly less than those in other the countries. The small difference between the median Scores in Russia indicates that the companies that participated provided little additional information on top of the information publicly available for non-participant companies.

Figure 4: Score distribution of all assessed companies



With the exception of the UK, active participants' Scores are all above 20, with Spain showing the best minimum Score at 54. Except for Finland and Italy, the minimum Score of non-participants is lower in all countries.

When all assessed companies are considered, Russia has the lowest minimum Score at 8 points, followed by Switzerland, the UK, Germany and Sweden, with 10, 10, 14 and 15 points, respectively.

A combination of participating companies and companies that were assessed only via publicly available information results in a wider distribution of Scores.

Finland and Italy stand out for DJSI membership

Eligibility for the Dow Jones Sustainability Indices (DJSI) is based on the free-float market capitalization of the largest publicly listed companies around the world. Out of these companies, DJSI membership is confirmed by the final Total Level SAM ESG Score. It is important to consider that the DJSI series uses a “best-in-class” approach whereby companies joining the respective indices are compared only to their industry peers.

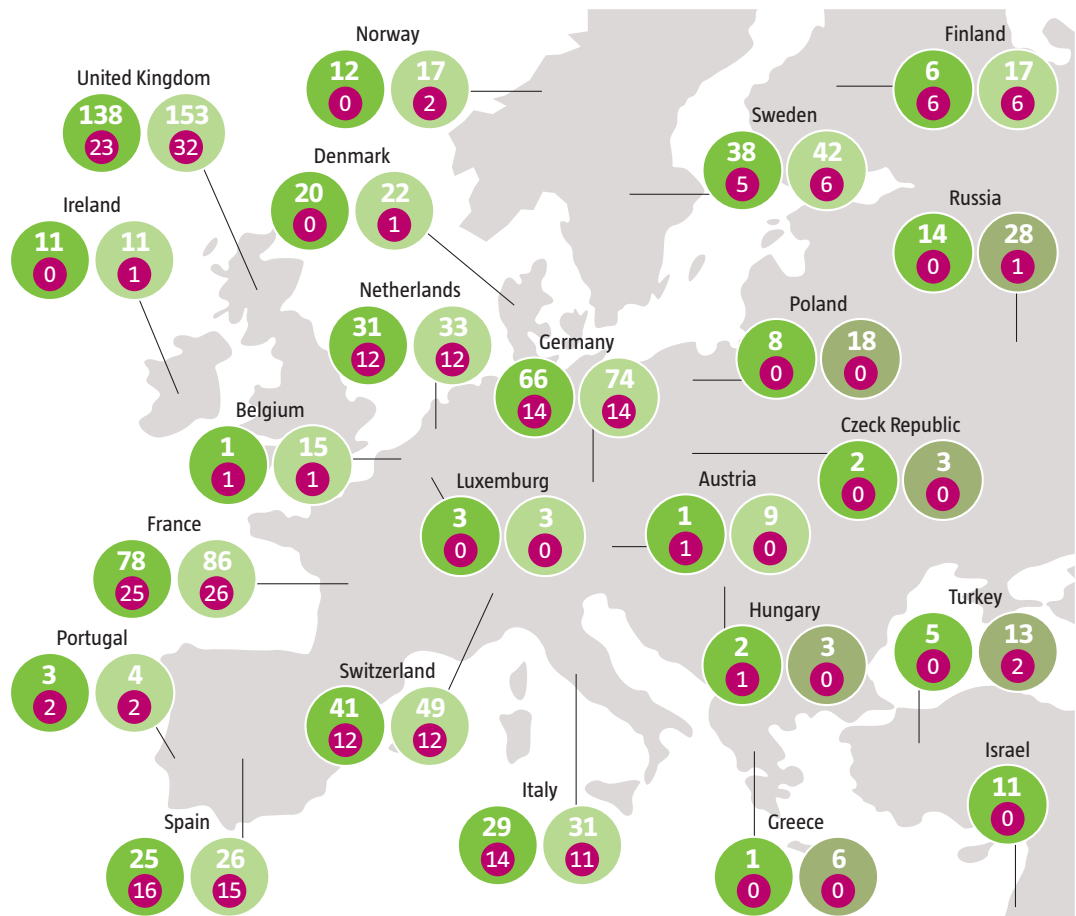
The top 10% of companies in each of 61 industries are selected for inclusion in the DJSI World components list each year. For the DJSI Europe components list, it is the top 20% of the largest European companies,

and for the DJSI Emerging Markets it is the top 10% that are selected from the largest Emerging Markets companies (all are based on the S&P Global Broad Market Index).

Finland is the standout European country present on the DJSI World components list, with all six of its eligible companies securing a place. Italy and Spain are also of note, with 16 Spanish members of the DJSI from a possible 25, and 14 Italian members out of 29. There are striking parallels here to the overall picture emerging from participation rates in different countries – with a fairly significant lead for these southern European countries over the major European economies of France, Germany and the UK. At 23 out of 138 companies in the UK, 25 out of 78 in France, and 14 out of 66 in Germany, DJSI World membership compared to eligibility is much lower in these countries than in Italy and Spain.

The picture shows a fairly significant lead in DJSI World membership for the southern European countries over the major European economies.

Figure 5: European companies' DJSI membership reflects participation rates



DJSI World:

- Number of companies invited in 2019
- Number of index members

DJSI Emerging Markets:

- Number of companies invited in 2019
- Number of index members

DJSI Europe:

- Number of companies invited in 2019
- Number of index members

The Invited Universe includes companies that are double listed on the stock exchange.

Source: SAM

For the DJSI Europe, Spain is the best represented country, with 15 of its 26 eligible companies achieving membership.

Russia shows its companies to be lacking strong Scores relative to industry peers, as no Russian companies secured a place in the DJSI World and only one company is member of DJSI Emerging Markets, out of 28 eligible companies.

The DJSI series uses a “best-in-class” approach whereby companies joining the respective indices are compared only to their industry peers.

Economic, Environmental, and Social Dimensions

This chapter looks at the sustainability performance of European companies overall and by country in the three Dimensions addressed by the CSA: Economic, Environmental, and Social. Each Dimension section sheds light on particularly topical criteria, highlighting achievements of note or pointing out opportunities for companies to overcome challenges and catch up with their peers in other countries and regions.

All data referring to “Europe” cover all European countries, not just the 10 countries selected for this report, and not just the countries included in the DJSI Europe as countries that are geographically part of Europe may be eligible for other DJSI indices such as the DJSI Emerging Markets. The European countries included in the DJSI Emerging Markets are the Czech Republic, Greece, Hungary, Russia and Turkey.

Economic Dimension

The CSA’s Economic Dimension covers a total of 28 criteria, but some apply only to a subset of industries. Only five of these are “general criteria” that are relevant to all industries and must therefore be addressed by all participants. These are **Codes of Business Conduct, Corporate Governance, Materiality, Policy Influence, and Risk & Crisis Management**. Corporate Governance is a particular focus in this report for its importance in ensuring that companies are managed in the interests of shareholders and other stakeholders and because it is an area in which European companies still show significant room for improvement.

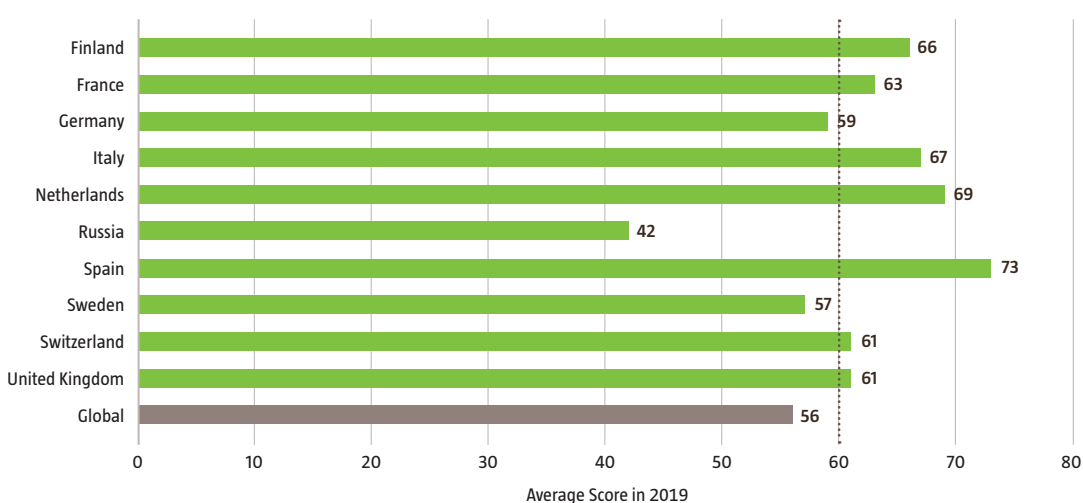
Europe outperforms overall

All in all, European companies score above the global average in the Economic Dimension with an Average Score of 60 versus a global average of 56. Nonetheless, an Average Score of just over 60 out of 100 still points to a need for further progress.

An intra-regional comparison of companies’ performance in the Economic Dimension shows that seven of the European countries covered in this report score above the European average and three underperform. The top-scoring countries are Spain (73), the Netherlands (69), Italy (67), Finland (66), France (63), Switzerland (61), and the UK (61), while Germany (59), Sweden (57), and Russia (42) score below the European average.

An Average Score of just over 60 out of 100 still points to a need for further progress.

Figure 6: Performance on Economic Dimension



Source: SAM

Russian companies are the clear laggards and the only ones of these European countries with a Score below the global average. Noteworthy, but outside the scope of this report because the country does not meet the minimum sample requirement, is the outstanding result of Portuguese companies in the Economic Dimension: With 79, Portugal has the highest average country Score in this Dimension worldwide. And although Switzerland scores just above average overall, two of the three top-scoring companies are based in this country, namely Coca-Cola HBC AG and Roche Holding AG. The third company in the top 3 is Italy's Enel SpA.

European companies score above the global average for all five "general" criteria in the Economic Dimension, with a Score of 72 versus 71 for Codes of Business

Conduct; 68 versus 61 for Materiality; 64 versus 58 for Risk & Crisis Management; 59 versus 53 for Corporate Governance, and 44 versus 43 for Policy Influence.

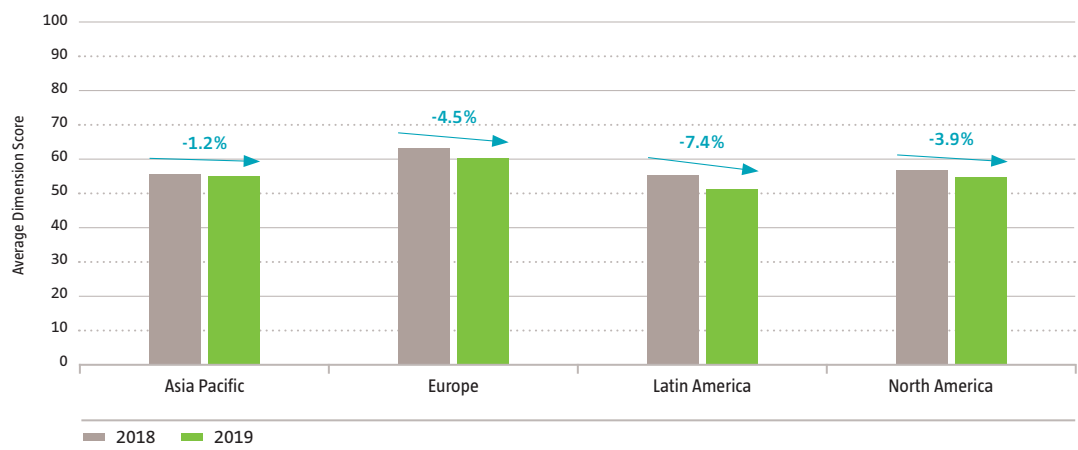
European companies also score above the global average for most industry-specific criteria. However, individual industries have some catching up to do – these include European airline companies with respect to flights' reliability; European telecommunications companies with respect to network reliability, and European banks and financial services companies with respect to anti-crime policy & measures.

Europe's lead over Asia is shrinking

Interestingly, a regional performance comparison shows that the gap between Asia and Europe in the Economic Dimension has been shrinking: Europe's Average Score fell from 63 to 60 between 2018 and 2019, while Asia-Pacific's Average Score remained largely unchanged at 55. As a result, the gap between the two regions narrowed from 8 points in 2018 to 5 points in 2019.

European companies score above the global average for all five 'general' criteria in the Economic Dimension.

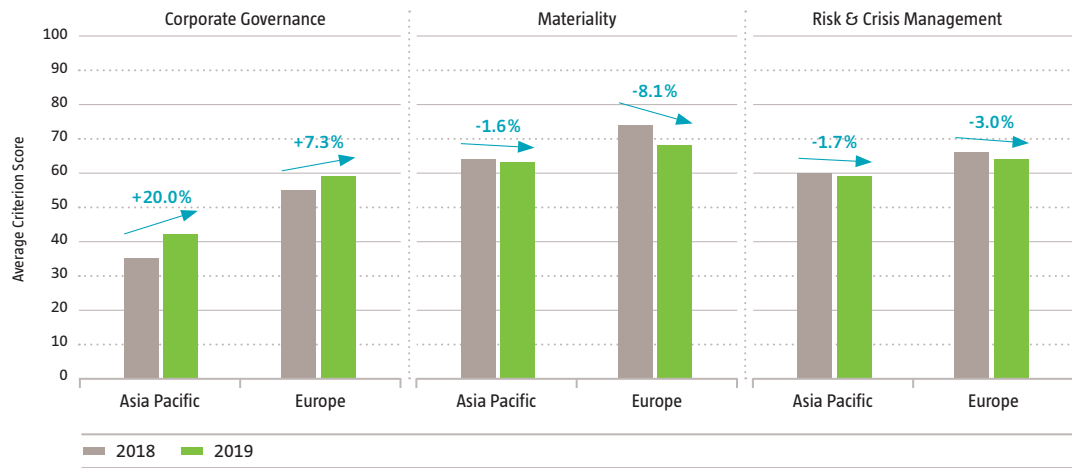
Figure 7: The gap in the economic dimension between Europe and Asia is shrinking



Source: SAM

The general criteria in which Asian companies are catching up with their European peers are Corporate Governance, Materiality, and Risk & Crisis Management (see figure 8).

Figure 8: General criteria in which Asian companies are catching up with their European peers



Source: SAM

Corporate Governance

The European corporate governance landscape is changing. Listed EU companies are increasingly subject to more disclosure and transparency requirements, with businesses across the EU having to prepare for annual votes on executive remuneration, which became compulsory under the EU’s Revised Shareholders’ Rights Directive in 2019 and will first be carried out at this year’s annual general meetings. Across Europe, investors are also increasingly holding executives to account over pay, governance standards and corporate scandals, with the proportion of resolutions experiencing significant shareholder dissent reportedly on the rise¹.

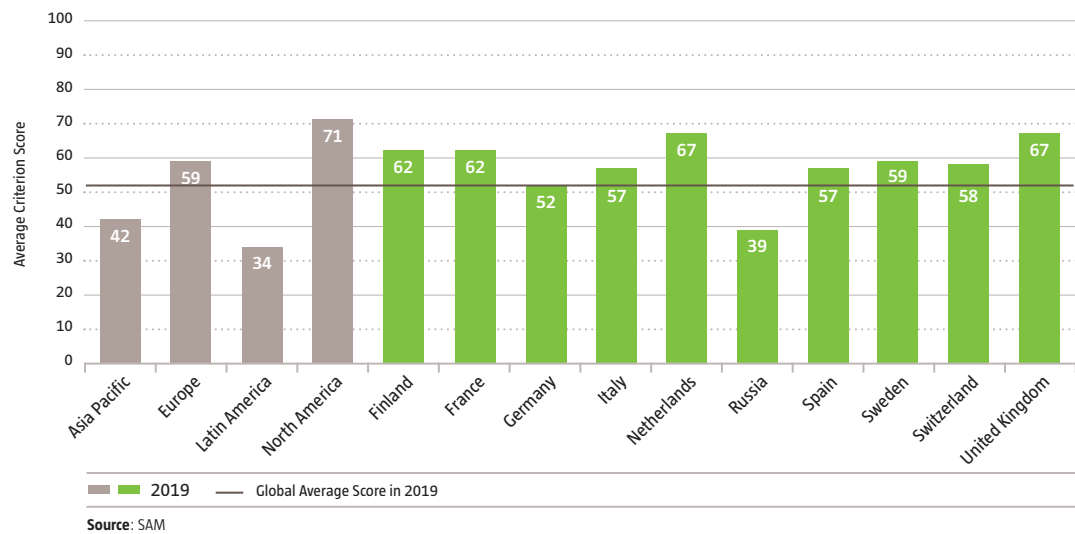
However, corporate governance standards and practices continue to differ across Europe, with one- and two-tier board structures and different transparency requirements regarding executive compensation and gender equality being prime examples. For example, measures to tackle the gender pay gap range from transparency requirements (Germany), through the obligation to report on the gender pay gap in the company’s annual report (UK) to the requirement for independent third-party assessments (Switzerland). And while the UK Corporate Governance Code charges boards with establishing the company’s purpose, values and strategy, France’s new Pacte Law requires companies to write their purpose (“raison d’être”) into their by-laws.

Listed EU companies are increasingly subject to more disclosure and transparency requirements.

A glance at the CSA results for the Corporate Governance criterion sheds light on European companies’ particular strengths and weaknesses in this area.

¹ According to shareholder engagement and governance consultancy Georgeson, the proportion of resolutions experiencing significant shareholder dissent when voted on at annual meetings increased by more than 6 percent in major European markets between 2018 and 2019, and more than doubled in Germany.

Figure 9: All countries in Europe except for Russia score above the global average for Corporate Governance



The CSA Corporate Governance questions focus on board structure, composition of the board and related committees, board effectiveness, and measures to ensure alignment with shareholders' long-term interests, which include transparency and the structure of executive remuneration as well as share ownership requirements.

A deep-dive into the different questions that constitute the Corporate Governance criterion shows that European companies are lagging behind the global average on several topics: **Board Structure** (48

vs. 52), **Management Ownership** (25 vs. 34), and **Management Ownership Requirements** (15 vs. 19). The European companies match or outperform the global average for all the other topics within this criterion, with Europe standing out on **Diversity Policy** (66 vs. 51), **Gender Diversity** (68 vs. 43), **Executive Compensation – Success Metrics** (51 vs. 39) and **Executive Compensation – Alignment with Long-Term Performance** (41 vs. 28).

The other two regional reports published on the basis of the CSA 2019 results focused on the room for improvement Latin American and Asian companies have with regard to Diversity and Executive Compensation. This report focuses on the questions where a clear need for improvement in Europe was identified, i.e. Board Structure, Management Ownership, and Management Ownership Requirements.

European companies are lagging behind the global average on several Corporate Governance topics.

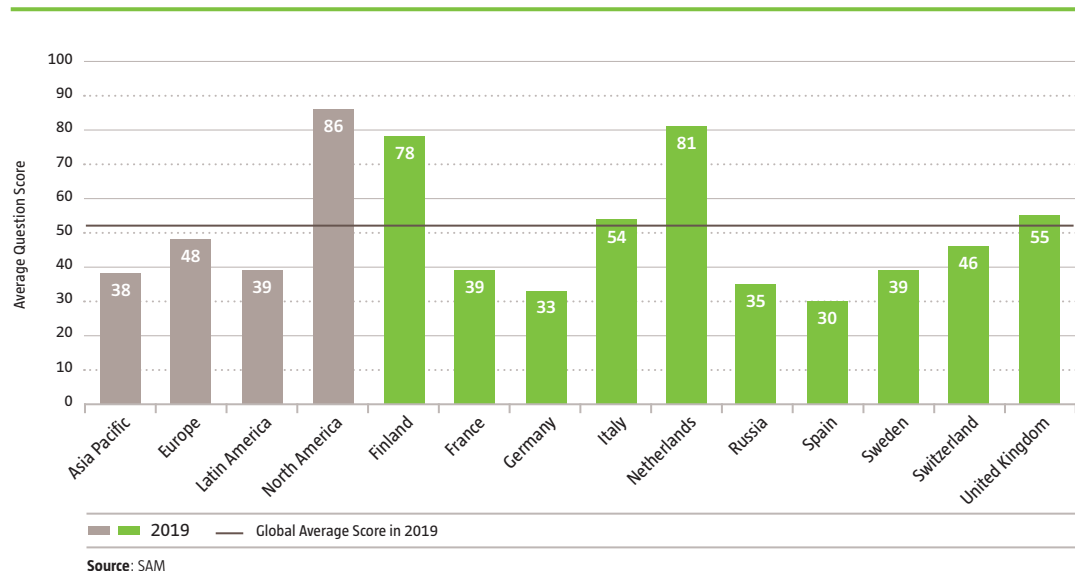
Board Structure

With this question, SAM assesses the number of executive and non-executive directors on the board of directors or supervisory board. This information must be publicly available. To ensure that the board of directors functions effectively and provides good oversight, it should consist of no more than 11 members, with independent directors making up at least 60% of the board² in order to score any points for this aspect. In addition, SAM requires each company to publish a board independence statement including an explicit definition of the requirements to be considered as an independent director. Finally, every company should

publicly report on its target share or target number of independent board directors. As such, SAM's independence requirements, which are based on the NYSE requirements, are stricter than the criteria specified in the governance codes of most European companies.

At 48 points, the average European Score for the 'Board Structure' question remained stable between 2018 and 2019. Although this clearly points to significant room for improvement, Europe actually scored higher than all other global regions except for North America, a striking outlier with an Average Score of 86 in 2019.

Figure 10: Finland and the Netherlands come closest to the high performance of North America on Board Structure



Europe's low absolute Score in the 'Board Structure' criterion and underperformance compared to North America throws up a host of questions: Are companies' boards too large? Are there too few independent directors? Is there too little public reporting and, specifically, no publicly available independence statement or publicly available target share of independent directors? Or do companies' definitions of independence fall short of SAM's requirements because SAM's requirements are based on the NYSE standards that were developed specifically for US companies?

The data on **types of boards** show that Europe has a relatively large number of companies with a two-tier board structure – about 28% compared to just 9% in

Latin America and no companies in the other regions. This is an interesting observation, but it is important to note that board types do not have an impact on the Scores for this question in the CSA.

The **size of European boards** of directors or supervisory boards clearly plays a role in defining their Scores. With an average of 12.15 members, boards of European companies are relatively large. The boards of companies with a one-tier structure are somewhat smaller than the boards of companies with a two-tier structure. However, with an average size of 11.32, they still exceed SAM's board effectiveness threshold of 11. The only other region with similarly large boards is Africa.

² Independent directors are defined as non-executive directors that fulfill at least four of the nine criteria set by SAM. Companies that are eligible to participate in the Corporate Sustainability Assessment (CSA), or participate on a voluntary basis, can access this list of criteria in the questionnaire in the online portal under 'Additional information and question guidance' for question 1.1.1 Board Structure.

The **share of independent directors** also points to room for improvement across Europe. Although the average share of 59% independent directors at European companies with a one-tier board structure is higher than the global average of 56%, North American companies show a much higher share of independent directors (85%). Average ratios for companies with a two-tier board structure are much lower across all regions. The share of independent directors at European companies with a two-tier board structure is just 30%. Overall, European companies do not fulfill SAM's minimum requirement of 60% to 90% independent board directors with a share of 51% for companies with one- and two-tier boards.

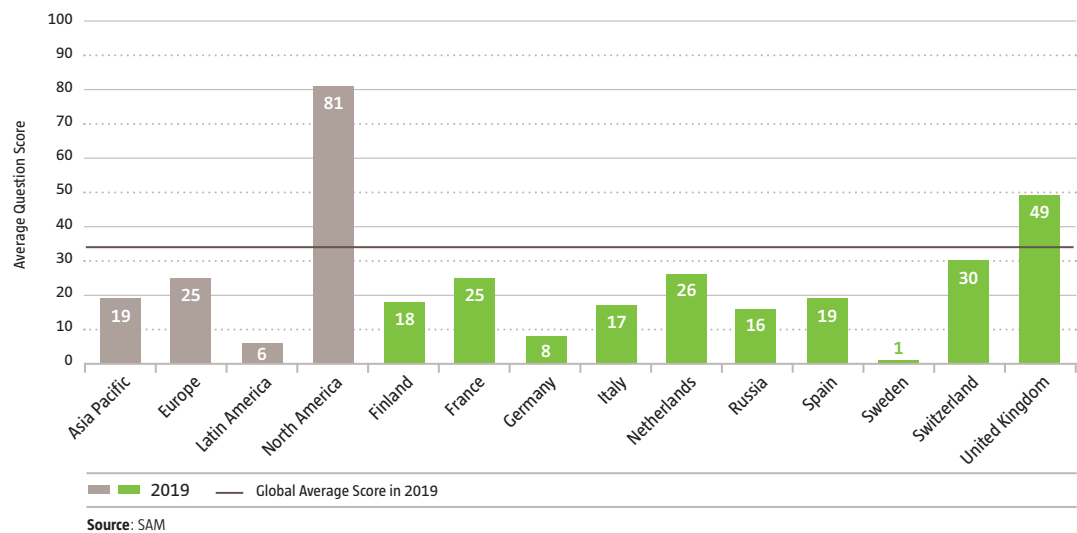
European companies also underperform other regions when it comes to **Board Independence Statements**. Only 76% of European companies have explicitly defined what constitutes an independent board member (and fulfilled SAM's requirements with these definitions), compared to up to 100% of companies in other regions. The picture for public reporting of the **target share of independent directors** on the board is similar, with just 59% of European companies communicating such a target – compared to 92% in North America.

Management Ownership

Academic research suggests that stock ownership by senior management is positively correlated with financial performance. Therefore, this is an important aspect considered in the CSA, which assesses the stock ownership of C-level executives in relation to their respective base salaries. Companies that publicly report this information can stand out further.

Academic research suggests that stock ownership by senior management is positively correlated with financial performance.

Figure 11: Management Ownership is an accepted concept in Anglo-Saxon companies



Here, too, European companies are far behind their North American peers: While European companies scored 25 on the Management Ownership criterion in 2019 (down from 28 a year earlier), North American companies showed an Average Score of 81. The gap is even larger when it comes to the publication of the CEO's share ownership as a multiple of the base salary, with 97% of North American companies reporting this

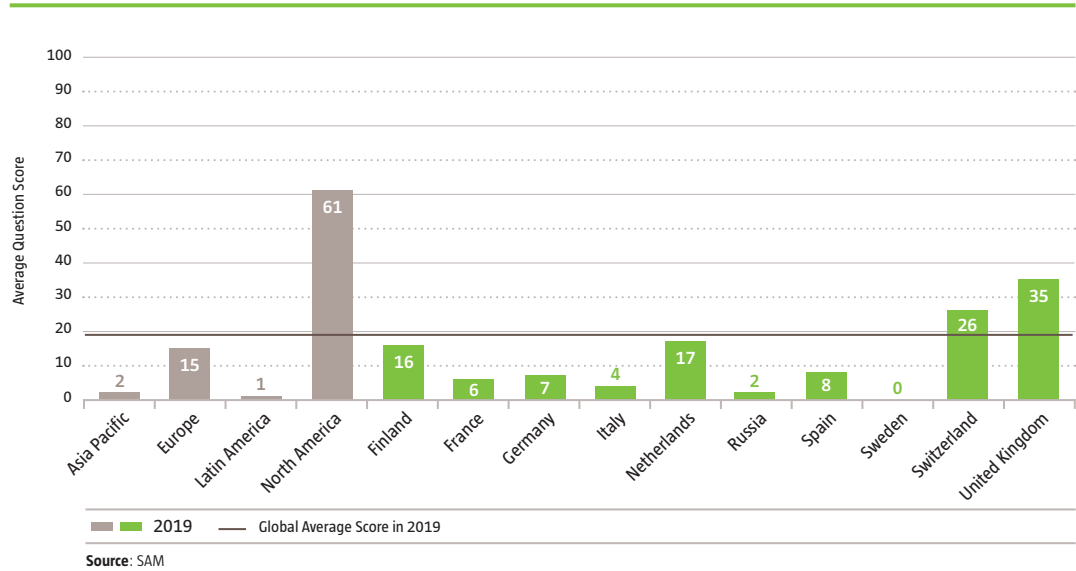
figure, compared to just 30% of European companies. However, ratios are even lower in Asia-Pacific, at 25%, and Latin America, at just 3%. The striking outperformance of North American companies can be explained by the fact that publicly traded companies in the U.S. are obliged to report on directors' salaries as well as executive officers' and directors' stock ownership in their annual Proxy Statement.

Management Ownership Requirements

SAM also expects companies to have explicit requirements regarding the build-up of share ownership for their C-level executives and to publicly disclose these requirements as a multiple of executives' annual base salary. The Average European Score for

the Management Ownership Requirements question remained stable at 15 between 2018 and 2019 and, compared poorly with an average of 61 for North American companies in 2019 as well as being lower than the global average of 19.

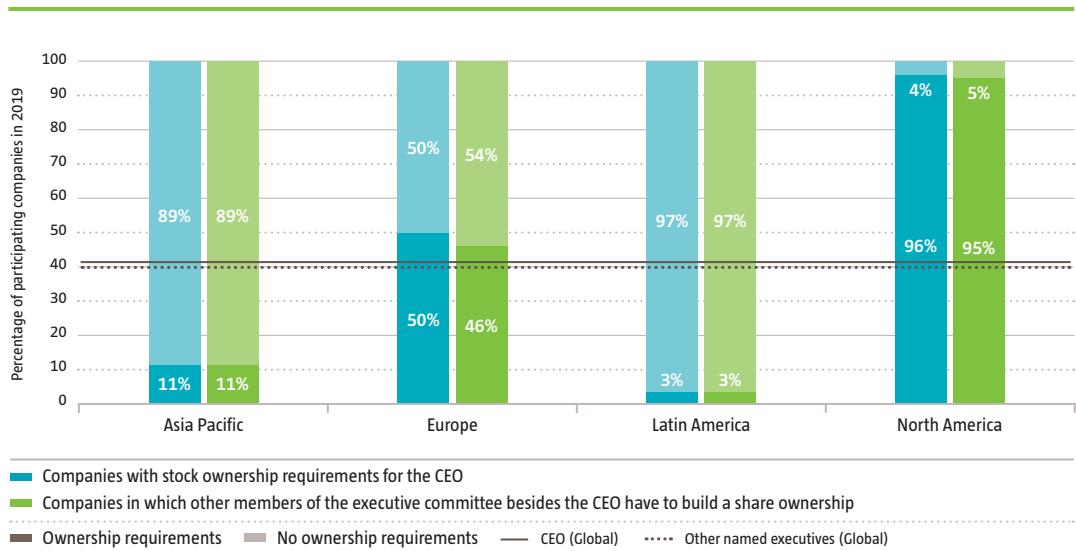
Figure 12: North America outperforms all countries in Europe in setting Management Ownership Requirements



As the following figures show, 50% of European companies have share ownership requirements for their CEO, and 46% for their other C-level executives, ranking them above the global averages of 41% and 40%, respectively. However, these global averages conceal

stark differences between regions, with North America showing rates of 96% and 95%, respectively, while Asia-Pacific (11% on both Scores) and Latin America (3% on both Scores) lag far behind.

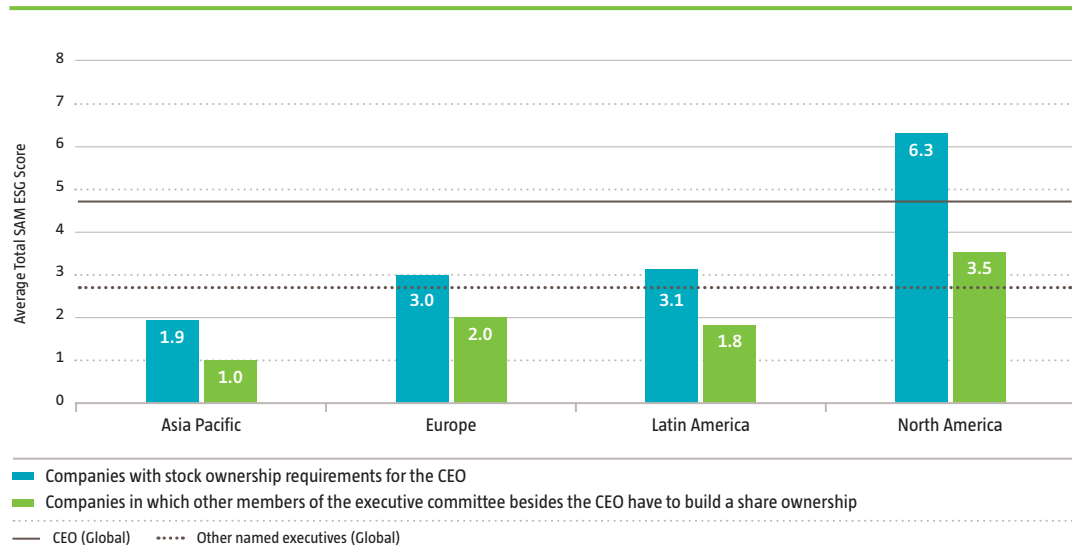
Figure 13: About half of the European companies have management ownership requirements in place



In international comparison, Europe is also midrange in terms of reported requirements of stock ownership as a multiple of the CEO's base salary. Its average multiple requirement of 3.0x is lower than the global average of 4.7x. However, this is again impacted by

the exceptionally high figure for North America (6.3x). Regional averages for stock ownership requirements of other C-level executives as a multiple of their base salaries are less dispersed.

Figure 14: European companies report on relatively low requirements of stock ownership for their executives



Source: SAM

Conclusion: Economic Dimension

The conclusion from these Corporate Governance related questions is that board structure and the transparent definition of management ownership requirements as well as their actual implementation remain areas of weakness for many European firms, particularly compared to their North American peers.

As the CFA Institute notes, to have effective boards of directors, companies must ensure, through board structures and nominating procedures, "that insiders and executive owners are unable to exercise undue control over the board's activities and decisions".

A board with a majority of independent directors is more likely to foster independent decision-making and is thus in the interest of all stakeholders of a company. Equally, management ownership requirements benefit all stakeholders by aligning incentives in a way that is consistent with the long-term interests of the company. Companies that stand out in these respects should benefit from reputational benefits among all stakeholder groups.

Generally, European companies show a relatively strong performance in the Economic Dimension in international comparison but need to make further progress to maintain standards and improve their in parts mediocre Scores. As always, the laggards should use the benchmarking results available to them to adopt best-practices and achieve better performance in the coming years.

European companies show a relatively strong performance in the Economic Dimension in international comparison but need to make further progress to maintain standards and improve their in parts mediocre Scores.

Environmental Dimension

Europe has a long history and reputation as a forerunner of environmental protection, with European-wide environmental laws going back to the introduction of exhaust standards for cars in the 1970s. European lawmakers, companies and investors continue to set standards in this area. With its Green Deal, presented in December 2019, the European Commission has placed the fight against climate change at the top of its agenda, aiming to achieve carbon neutrality for the continent by 2050. In February 2020, Europe's largest pension fund reiterated the same goal for its portfolio

of assets, pressuring the companies it invests in to transition to new energy generation and renewable energy sources, and to adopt a different approach to natural resource utilization.³ Meanwhile, as part of the EU's Action Plan to reorient capital flows toward sustainable investment, the EU's so-called „Taxonomy Regulation“, which is due to apply from December 2021, will establish an EU-wide classification system intended to enable firms and investors to identify to what degree economic activities can be considered to be “environmentally sustainable”.

Portuguese companies achieved the highest Average Score of any country worldwide in the Environmental Dimension.

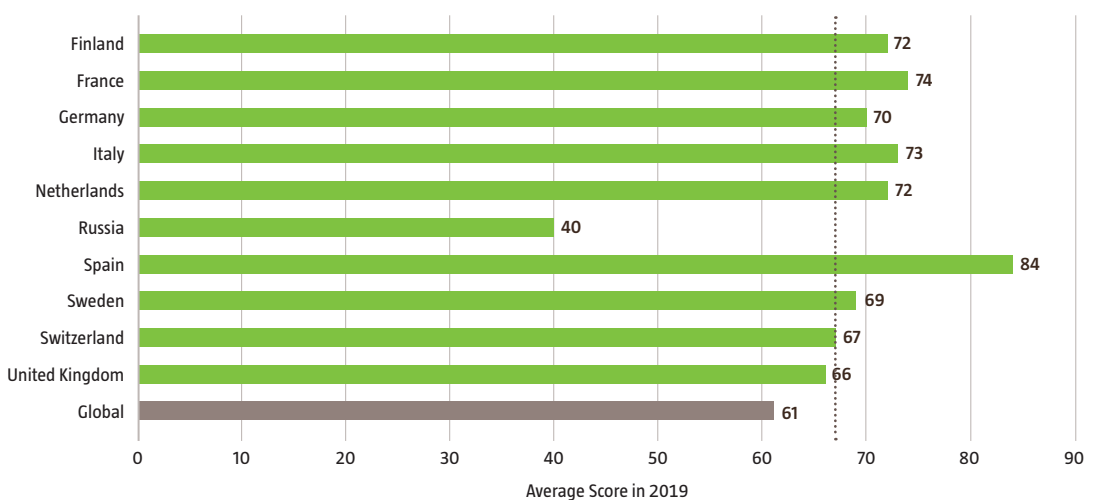
The results of SAM's Corporate Sustainability Assessment 2019 confirm Europe's lead in this area.

Europe outperforms other regions

Europe's overall Average Score in the Environmental Dimension is 67 compared to a global average of 61. The top performers are Spain (84), France (74), Italy (73), the Netherlands (72), Finland (72), Germany (70), and Sweden (69). The laggards are Switzerland (67), the UK (66), and Russia (40). Once again, Portugal, a country not covered in this report, achieved not only the

highest Average Score within Europe, at 93, but also the highest Average Score of any country worldwide. Europe's three top-scoring companies in 2019 in the Environmental Dimension were Germany's adidas AG and Deutsche Telekom AG, and UK-based Coca-Cola European Partners PLC.

Figure 15: Performance on Environmental Dimension



³ Source: <https://www.ai-cio.com/news/europes-largest-pension-fund-vows-climate-neutral-2050/>

..... European Average Score - all companies in Europe that participated in the assessment in 2019

Source: SAM

The three “general” criteria in the CSA’s Environmental Dimension that apply to all industries are **Climate Strategy, Environmental Reporting** and **Operational Eco-Efficiency**. All in all, the Environmental Dimension covers 21 criteria.

European companies score above the global average for all three of the “general” criteria. The Average European Scores for the general criteria are 66 versus a

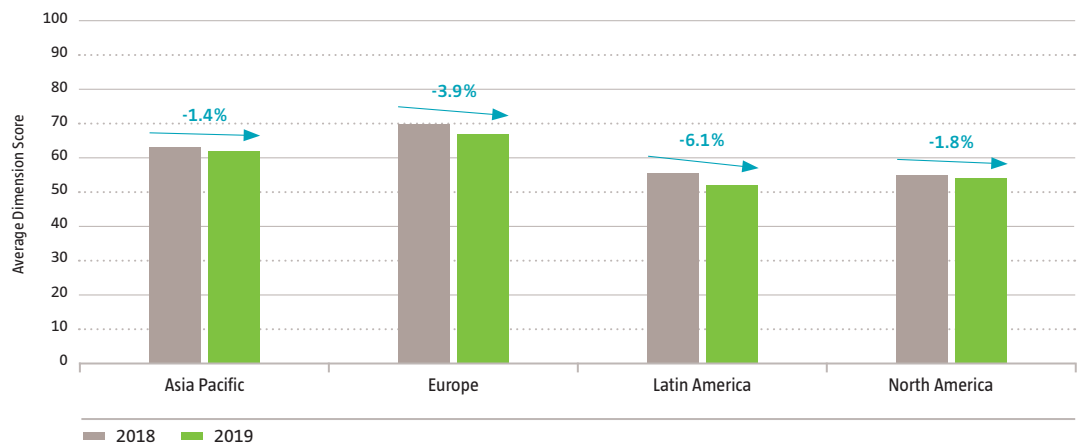
global average of 61 in the **Climate Strategy** criterion; 81 versus 72 in **Environmental Reporting**, and 68 versus 60 in **Operational Eco-Efficiency**. The companies in Europe also outperform the global Average Score for all industry-specific criteria including **Packaging, Product Stewardship, Raw Material Sourcing**, and **Water-Related Risks**. In the next section, we will take a closer look at European companies’ performance in the Climate Strategy criterion given the sheer magnitude of this challenge and its impact on virtually all industries.

European companies score above the global average for the three ‘general’ criteria Climate Strategy, Environmental Reporting, and Operational Eco-Efficiency.

Europe’s regional lead is shrinking

From 2018 to 2019, European companies recorded a somewhat stronger decline than those in the Asia-Pacific region at about -3.9% (from 70 to 67) versus -1.4% (from 63 to 62). As a result, the gap between the two regions narrowed from 7 points in 2018 to 5 points in 2019.

Figure 16: The gap in the environmental dimension between Europe and Asia is shrinking

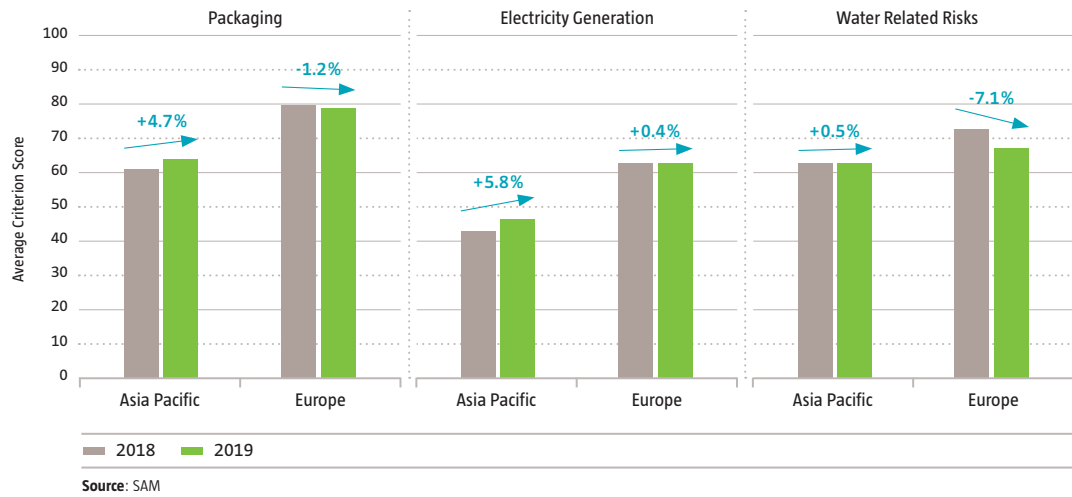


Source: SAM

While both regions show similar trends in their year-on-year change in performance with respect to the general criteria, companies from Asia-Pacific are catching up

in industry-specific criteria where their performance has improved while that of their European peers has declined or remained stable.

Figure 17: Industry-specific criteria in the Environmental Dimension in which Asian companies are catching up with their European peers

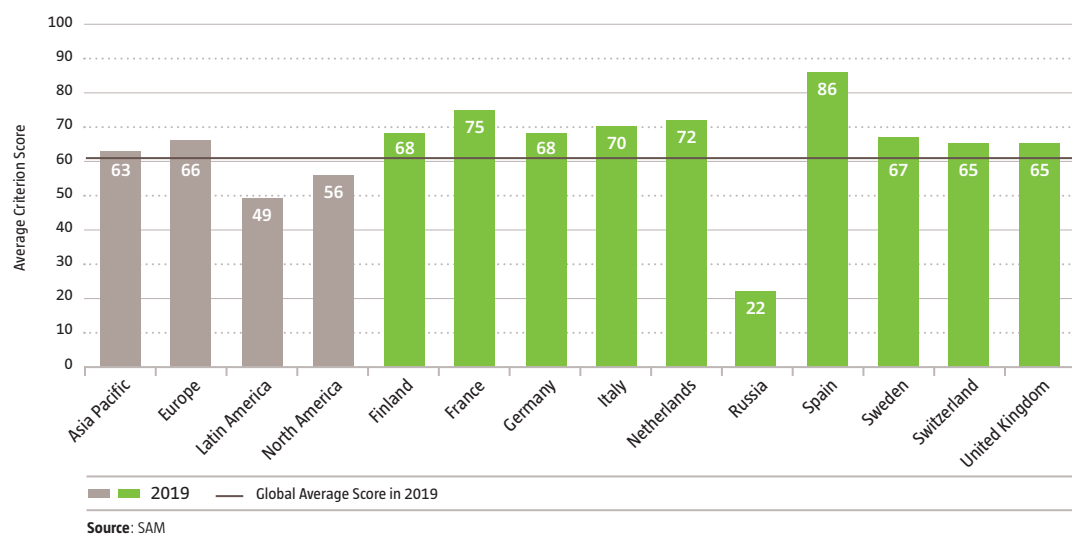


Climate Strategy

Most industries are likely to be impacted by climate change, with companies having to design strategies commensurate to the scale of the challenge for their particular industry. While most companies focus on the risks associated with a changing climate, some seek

to identify and seize the business opportunities linked to this global challenge. Companies that do both are clearly best positioned to continue to perform well in a global business environment impacted by the effects of a changing climate.

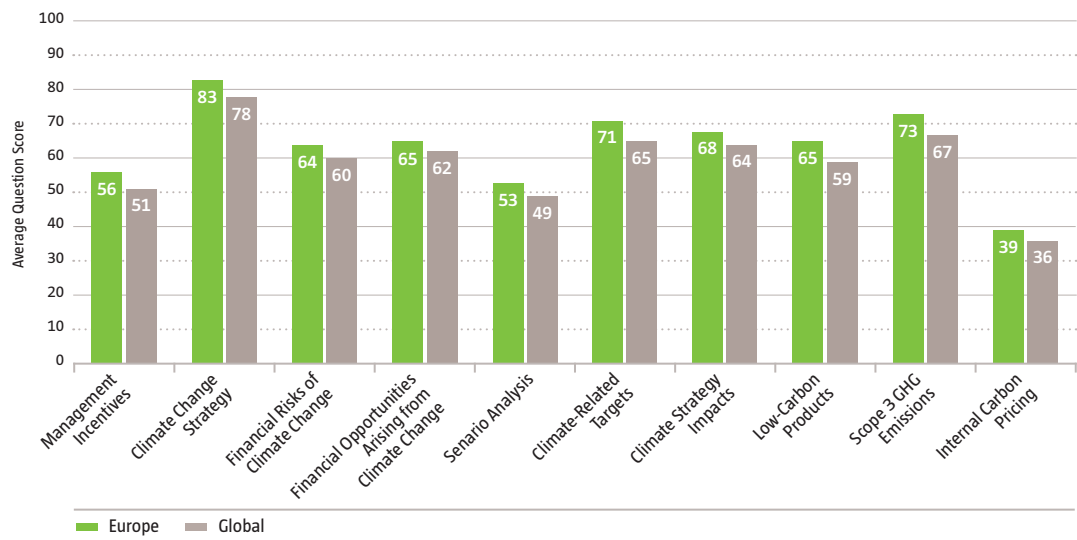
Figure 18: Spanish companies outperform all other countries and regions in the criterion Climate Strategy



A closer look at Europe’s scores in the individual questions addressed by the Climate Strategy criterion⁴ shows that European companies outperformed the global average in all 10 questions in 2019. These relate to management incentives, climate change strategy, financial risks of climate change, financial opportunities arising from climate change, scenario analysis, climate-related targets, climate strategy impacts, low-carbon products, Scope 3 GHG emissions, and internal carbon pricing.

financial risks of climate change, financial opportunities arising from climate change, scenario analysis, climate-related targets, climate strategy impacts, low-carbon products, Scope 3 GHG emissions, and internal carbon pricing.

Figure 19: European companies outperform the global average in all 10 questions in 2019



Source: SAM

Management Incentives

The first question on climate strategy put to the companies in all 61 industries relates to **incentives for the management of climate change issues**.

The question aims to capture the way in which companies reward the management of climate change issues, including the attainment of targets. Such incentive structures ensure that climate-related ambitions and goals are embedded throughout the

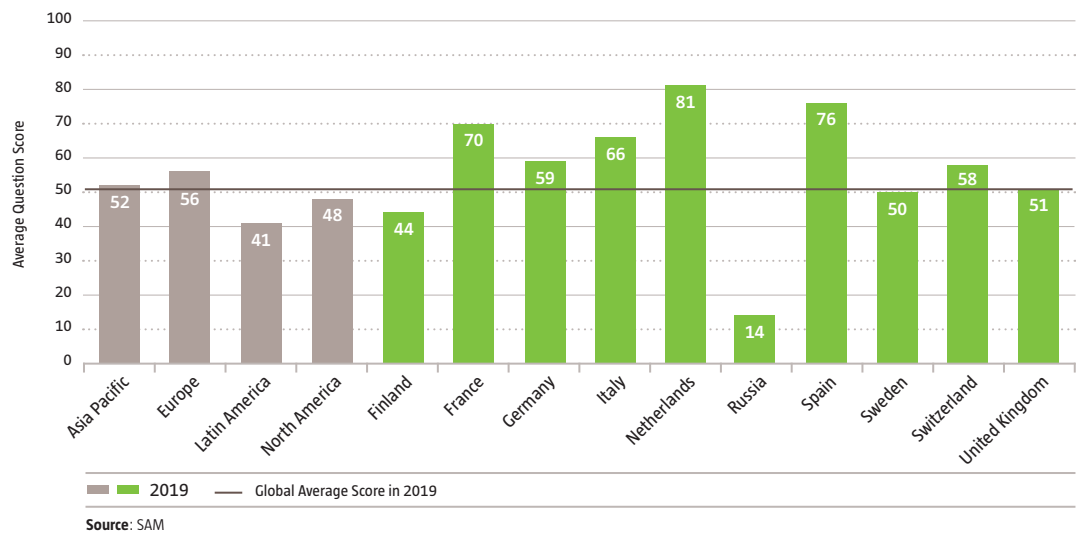
company and that management is held accountable for the achievement of these goals.

Examples of incentive types that can be provided for the CEO, other C-level executives, business unit managers, employees and other groups include monetary incentives (bonuses or some form of financial remuneration), non-monetary recognition such as employee awards or career progression schemes, and other non-monetary rewards including increased holiday allowances or special assignments. SAM defines best practice in this area as the provision of monetary incentives to a company’s CEO and other named executives as well as business unit managers.

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⁴ The questions in the Climate Strategy criterion have been developed in alignment with the CDP methodology as part of a collaboration between SAM and CDP.

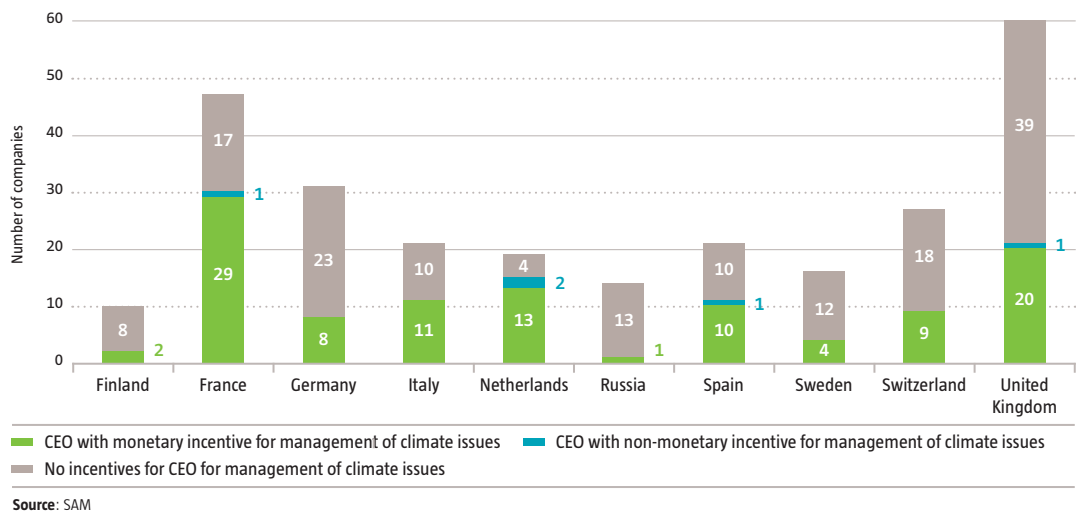
Figure 20: Dutch companies clearly outperforming incentivizing monetarily for management of climate change issues



At a ratio of 41%, Europe clearly outperforms the – admittedly low – global average of 31% of **companies that have incentives for the management of climate issues for their CEO**. In Europe, companies from the

Netherlands and France lead with good and satisfactory averages of 79% and 64%, respectively. Finnish and especially Russian companies are the clear laggards with ratios of 20% and just 7%, respectively.

Figure 21: Over half of the companies in France, Italy and the Netherlands have monetary incentives in place for the CEO for management of climate issues



At 48%, Europe’s performance in terms of incentives for the management of climate issues for business unit managers is roughly in line with the global average of 47%. The top performers in this area are companies from Germany and Spain, both with a coverage of 71%. Many companies also have such **incentives in place for**

their employees. Here, however, Europe underperforms the global average with a ratio of 36% compared to 43%. Spanish and German companies are also ahead here, with 57% and 52%, respectively, compared to ratios of 40% for France, 38% for the UK, and 37% for Switzerland and the Netherlands.

Climate Change Strategy

The other question within the Climate Strategy criterion that applies to companies in all 61 industries focuses on the processes and strategies that companies use to structure their approach to climate change. SAM asks companies about their procedures relating to the management of climate change risks and opportunities. Specifically, companies are asked about the way in which their processes for identifying, assessing and managing climate-related issues are integrated into their overall risk management.

SAM distinguishes between the **integration of climate-related issues into multi-disciplinary company-wide risk management processes**, on the one hand, and specific climate change risk management processes, on the other. The former entails a documented

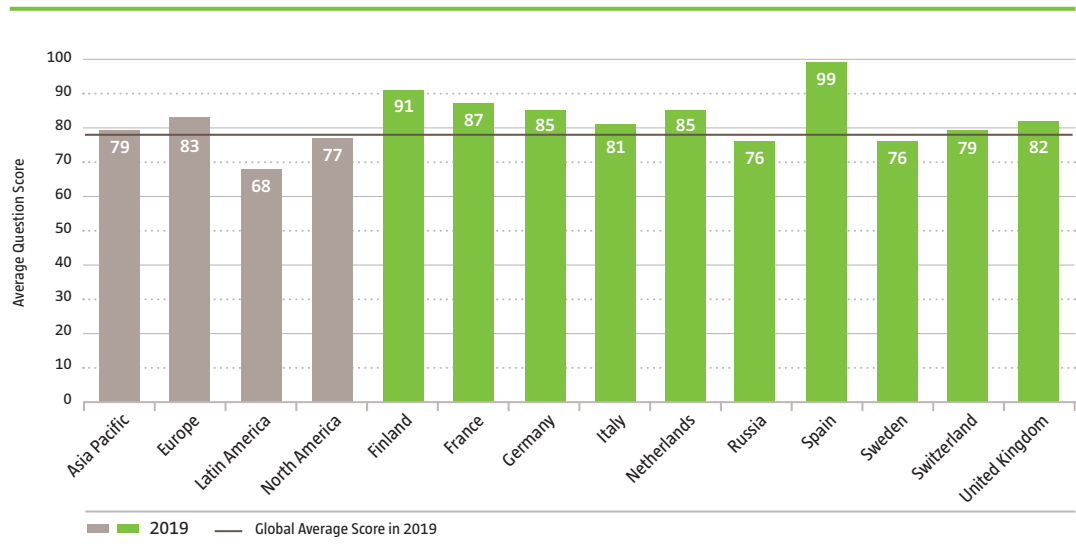
process for the integration of climate change risks and opportunities into the company's centralized enterprise risk management program covering all types and sources of risks and opportunities. The latter, in turn, refers to a documented process that considers climate change risks and opportunities separately from other business risks and opportunities.

SAM considers the integrated risk management approach as preferable and therefore as best practice for answering this question. However, companies that have a separate climate change risk management process are also rewarded.

In 2019, European companies' Average Score in the Climate Change Strategy question decreased to 83 from 88 in 2018. Eight of the 10 countries covered in this report showed a decline while the Average Scores for companies in Russia and Spain trended upward, with a substantial increase of +22 in Russia and a minor improvement of +2 in Spain.

SAM considers the integrated risk management approach as preferable and therefore as best practice.

Figure 22: Most European companies have integrated multi-disciplinary company-wide risk management processes in place that integrate climate-related issues

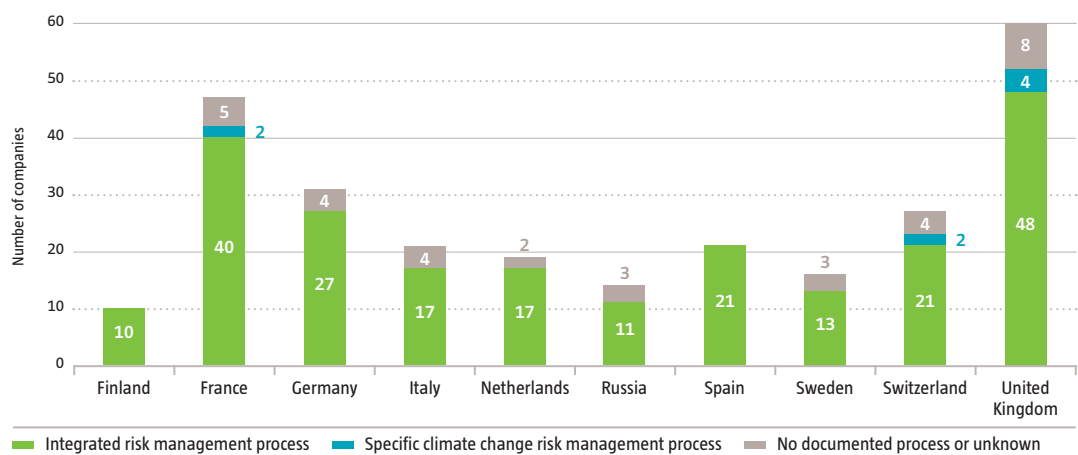


Source: SAM

In two of the 10 countries covered in this report – Finland and Spain – all assessed companies have an integrated risk management process that integrates climate-related issues. Six other countries achieved quotas between 80% and 89% in 2019, with Germany showing the third-highest quota of all countries, at 89%. Only Switzerland and Russia came out just below

80%. The fact that very few companies in just three of the 10 assessed countries have only a specific risk management process for climate-related risks points to a general preference for integrated risk management – clearly a positive finding as SAM also considers this approach as best practice.

Figure 23: All companies in Finland and Spain have an integrated risk management process that integrates climate-related issues



Source: SAM

Conclusion: Environmental Dimension

The results of the CSA 2019 in the Environmental Dimension clearly confirm European companies' continued lead in this area, although other regions are beginning to catch up. In Europe, as elsewhere in the world, heightened environmental awareness among

investors and consumers is changing markets, and companies are responding by adopting forward-looking strategies, setting ambitious targets and addressing their risks and impacts throughout supply chains. As always, there is still significant room for improvement, with a more widespread adoption of management incentives for the management of climate change issues featuring particularly prominently on companies' to-do lists.

Heightened environmental awareness among investors and consumers is changing markets, and companies are responding by adopting forward-looking strategies, setting ambitious targets and addressing their risks and impacts through supply chains.

Social Dimension

Social sustainability factors are material issues for many industries, and their management is directly linked to companies' reputation and brand equity. While the focus for ESG criteria is often still on the 'E', followed by the 'G', issues such as human rights, labor standards and gender equality – and the risks and opportunities they present to investors – are gaining more prominence. Companies are showing a growing awareness of the fact that good social performance can translate into improved business performance and better relationships with local communities.

Issues such as human rights, labor standards and gender equality - and the risks and opportunities they present to investors - are gaining more prominence.

Europe outperforms on social factors

Europe scores above the global average in the Social Dimension, with its Score of 58 topping the global average by 5 points. Out of the 10 European countries covered in this report, six score above the European Average Score. Spain leads with a Score of 75, followed by Italy (66), the Netherlands (66), France (62), Germany (61), and Finland, with a Score rounded down to 58, the European average. The other four countries score below, with Switzerland at 57, Sweden at 56, the UK at 55, and Russia again the laggard at just 37.

Interestingly, Portugal, a country out of the scope of this report that also stands out in the Economic and Environmental Dimensions, shows the highest Average Score for the Social Dimension of any country, not just in Europe but worldwide, at 88. It is followed by Colombia with an Average Score of 76 among its 11 assessed companies.

Disclosure on social factors is increasing, but the quality of reporting varies significantly among global companies.

At a global scale, this momentum has received tailwind from the increased attention to social issues through the adoption of the UN Sustainable Development Goals (SDGs). In Europe, the new EU "Taxonomy" agreed in December 2019, which is part of the EU Commission's Action Plan on Financing Sustainable Growth, requires "environmentally sustainable economic activities" to also comply with minimum social standards.

As in the Environmental Dimension, SAM's CSA data show that disclosure on social factors is increasing, but that the quality of reporting varies significantly among global companies.

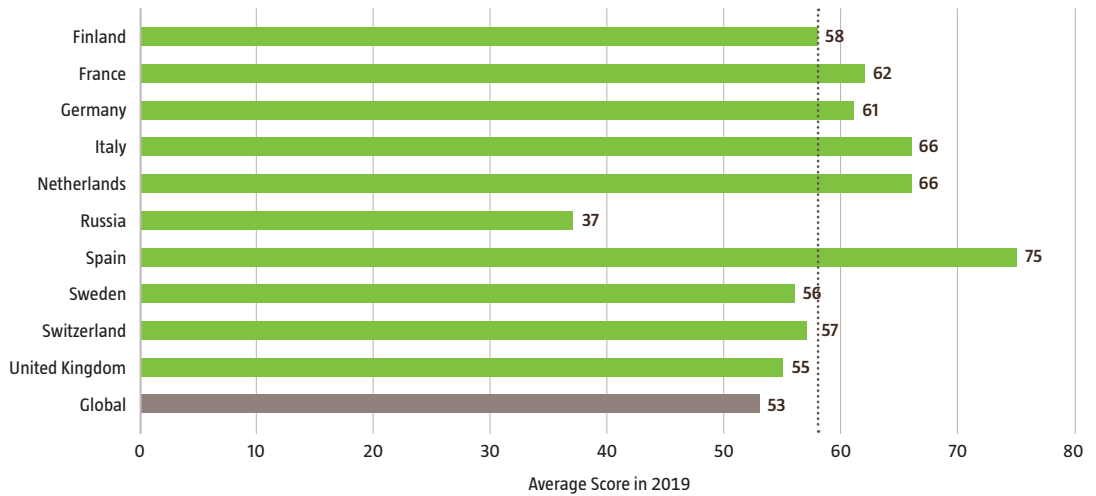
Europe's three top-scoring companies in the Social Dimension are UK-based GlaxoSmithKline PLC, Koninklijke KPN NV from the Netherlands, and Finland's UPM-Kymmene Oyj.

Europe's Average Score matches or exceeds the global average for all six "general" criteria that are applied to all industries in the Social Dimension: Europe matches the global average with a Score of 66 in the **Corporate Citizenship & Philanthropy** criterion, and outperforms it in the criteria **Human Capital Development** (58 vs. 52), **Human Rights** (45 vs. 35), **Labor Practice Indicators** (61 vs. 57), **Social Reporting** (75 vs. 63), and **Talent Attraction & Retention** (52 vs. 49).

Europe also matches or exceeds the global Average Score for the most common industry-specific criteria, including **Financial Inclusion**, **Occupational Health and Safety**, and **Stakeholder Engagement**.

In the next section, we will take a closer look at European companies' performance in the Labor Practice Indicators criterion given the overriding importance of an engaged and incentivized workforce for any company.

Figure 24: Performance on Social Dimension



..... European Average Score - all companies in Europe that participated in the assessment in 2019

Source: SAM

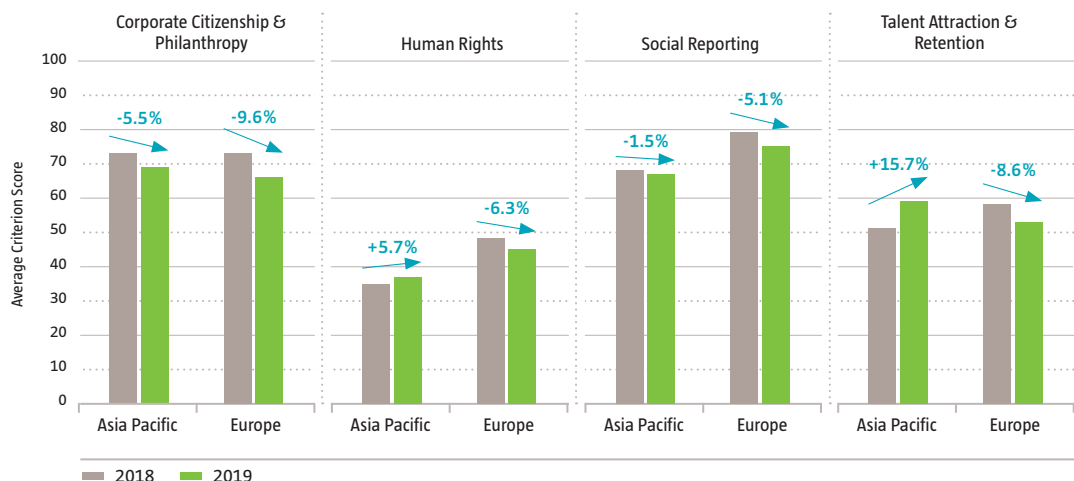
Asia catching up with Europe

A regional performance comparison shows that Europe experienced a much more pronounced drop in its Average Score (minus 7.3% to 58 from 62) than Asia-Pacific from 2018 to 2019 (minus 2.2% to 55 from 56). As a result, the gap between the two regions has narrowed to 3 points from 6 points in 2018. Another notable finding of the regional comparison is North America's performance, which was already below par and declined further in the period, to just 44 in 2019 – the lowest Score of any region in the Social Dimension.

The general criteria in which European companies are losing ground to their Asian peers are Corporate

Citizenship & Philanthropy, Human Rights, Social Reporting, and Talent Attraction & Retention (see figure). Strikingly, although European companies perform somewhat better in the Human Rights criterion, both Europe and Asia-Pacific clearly have considerable need for improvement in this area. Arguably, though, it is more difficult to score well on this criterion than, for example, on the Corporate Citizenship & Philanthropy criterion (an area in which both Europe and Asia-Pacific perform strongly) as it involves preventing or mitigating human rights impacts across companies' often complex supply chains, involving a host of actors outside the companies' direct control.

Figure 25: General criteria in the Social Dimension in which Asian companies are catching up with their European peers



Source: SAM

Labor Practice Indicators

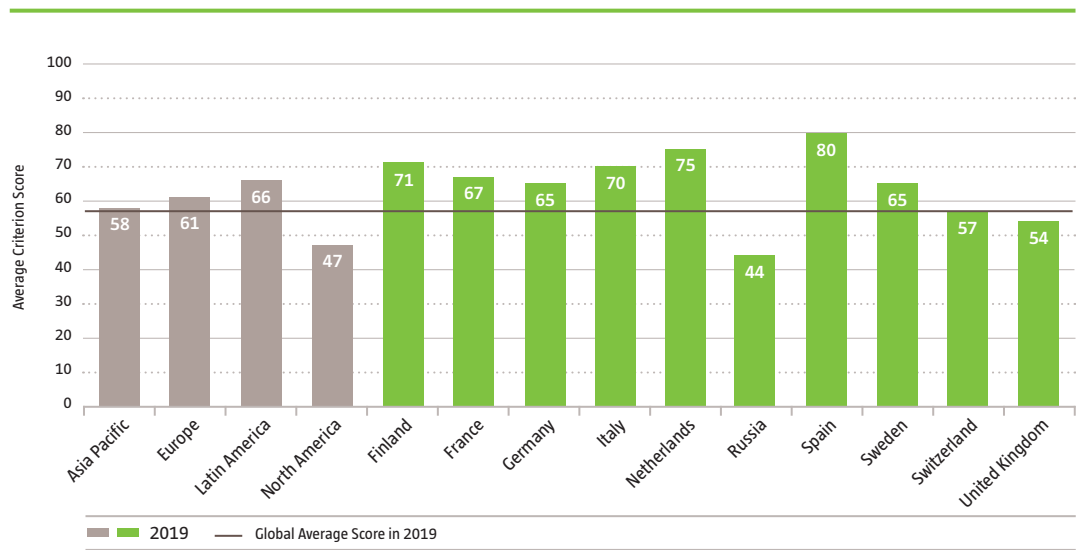
Employees represent one of a company’s most important assets. Maintaining good relations with employees is essential for continued business success, particularly in industries that rely on a highly skilled and experienced workforce. Beyond providing a safe and healthy working environment, companies should support fair treatment practices such as guaranteeing diversity, ensuring equal remuneration and supporting freedom of association. In accordance with international standards on labor and human rights, companies are increasingly expected to adhere to and apply these standards equally across all operations within the organization, its business partners and value

chain. Furthermore, growing customer awareness leads to higher expectations from companies in their role as global corporate citizens and their ability to drive sustainable business practices forward. The key focus of the Labor Practice criterion is on **gender diversity, equal remuneration, and freedom of association.**

A regional comparison shows that companies in Latin America outperform their European peers on this criterion with an Average Score of 66 versus 61. However, Europe is 3 points ahead of Asia-Pacific and 14 points ahead of North America. Led by Spain (80), seven of the 10 countries covered in this report score above the European average. Switzerland, the UK and Russia underperform the European Average Score, with Russia again bringing up the rear.

Growing customer awareness leads to higher expectations from companies in their role as global corporate citizens and their ability to drive sustainable business practices forward.

Figure 26: Latin America is leading over Europe on good performance in labor practice indicators



Source: SAM

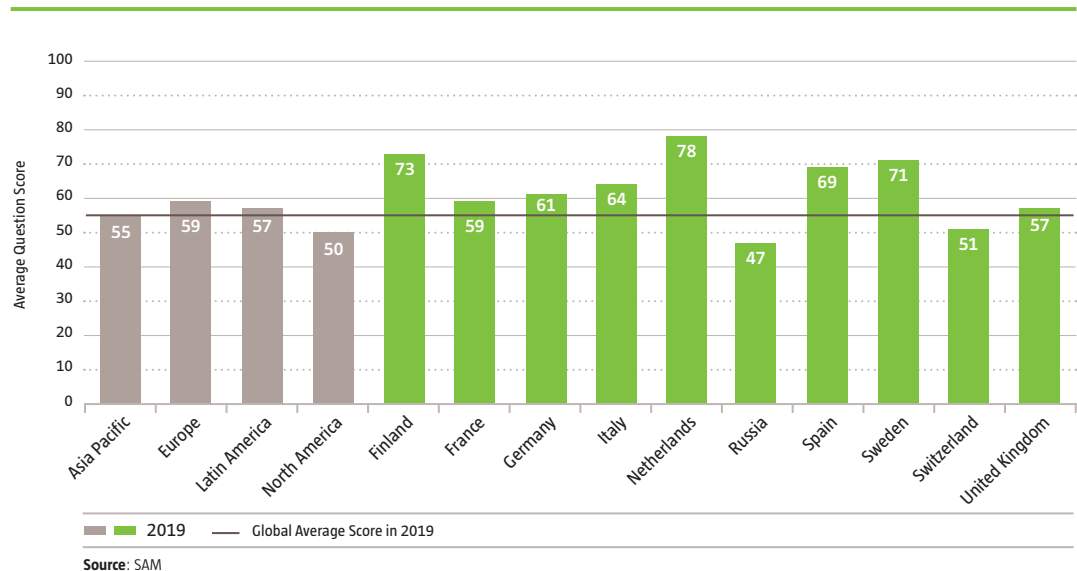
Diversity

Research shows that a gender-balanced workforce has a positive effect on corporate performance in terms of profitability, risk reduction and share price performance. SAM assesses various labor KPIs to determine not only the quality, but also the transparency of companies' reporting on diversity issues. The question on diversity specifically assesses workforce diversity with a focus on the proportion of women in senior management relative to junior management and the question of how the proportion of women changes as the management level and P&L responsibility increase. This is an indicator of a company's ability to promote its top female talent from junior management up to senior management positions. The Diversity question looks at companies'

ability to disclose these data, as well as performance, with the performance aspect specifically considering whether companies have a "glass ceiling" hindering women's progress on the career ladder. This is measured by comparing the proportion of junior female managers to the proportion of senior female managers.

Europe is the global leader in terms of **gender diversity in the workforce**, with a Score of 59 versus the global Average Score of 55. However, the global dispersion of Scores is relatively limited here, with regional Scores ranging from 50 (North America) to 59 (Europe). Within Europe, the outperformers are led by the Netherlands (78), Finland (73) and Sweden (71).

Figure 27: On a global scale Switzerland and Russia are not excelling when it comes to gender diversity in the workforce



Actual representation of women in the workforce ranges from a strikingly low ratio of 29% in Finland to 42% (Switzerland). Predictably, female representation in junior management positions is even lower, ranging from 22% in Finland to 35% in the UK. The share of women declines further in senior management positions, with a range of 16% (Italy) to 31% (Sweden). Interestingly, female representation in active in revenue-generating management positions⁵ shows greater divergence among European countries, ranging from 18% in Finland to 39% in Sweden.

Research findings show that numerous obstacles continue to make it harder for women to get on an equal footing with men when it comes to executive positions. Frequently cited reasons include resistance from homogenous boards, benefits for stay-at-home mothers and the inner conflict often faced by working mothers struggling with the demands of career ambitions and maternal duties, with management positions usually still full-time rather than part-time.

⁵ Revenue-generating management positions are line management roles in departments such as sales, or that contribute directly to the output of products or services.

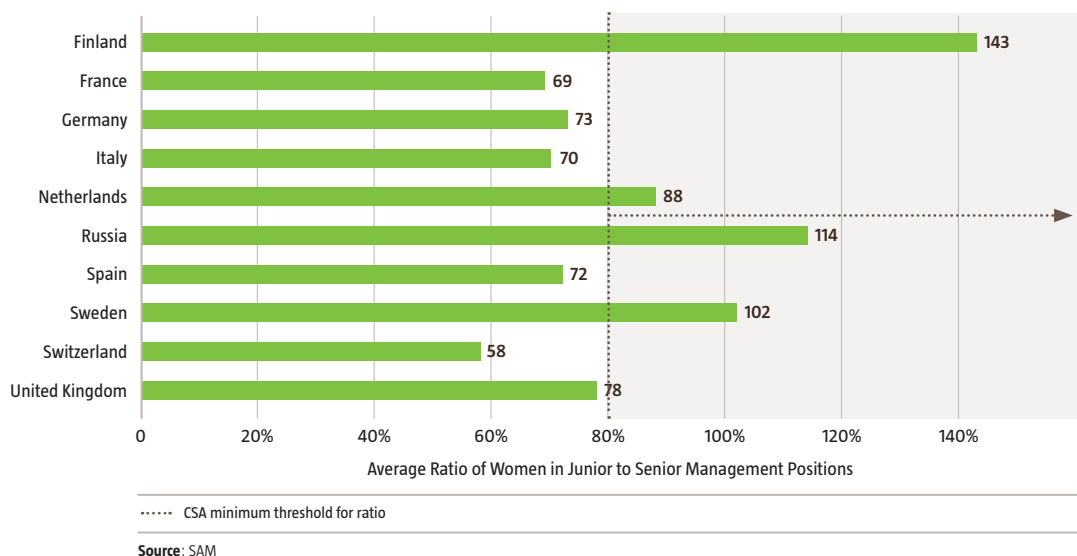
Figure 28: All European countries have most gender equality in their total workforce while on management level there is still room for improvement



Through the CSA SAM assesses whether companies have a significant **ratio of women being promoted from junior management positions to senior management positions**. Low ratios are seen as potential evidence of a glass ceiling preventing women from advancing their careers within a company. SAM defines best practice

in this area as a ratio of at least 80% of women in senior management positions over women in junior management positions. For example, SAM would expect at least 40% women in senior management positions when half (50%) of the positions in junior management are filled by women.

Figure 29: Average ratio of women in junior and senior management positions is excellent to reasonable in Europe except for in Switzerland



With the exception of Switzerland, where the ratio of women in senior management positions to women in junior management positions is just 58%, the 10 European countries covered in this report show reasonable to excellent performance in this question. The positive outlier is Finland, with an average of 143% of women in senior management positions to women in junior management positions. Russia also has relatively more women in senior management positions than in junior management positions. Companies in the Netherlands and Sweden meet SAM's threshold of 80% as well when it comes to the ratio of women in senior and junior management positions.

Equal Remuneration

In the question on Equal Remuneration SAM asks companies to disclose **salaries for male and female employees** at different levels of responsibility, and performance, with the performance aspect specifically considering the relative base salaries of male and female managers as well as the relative base salaries plus incentives for male and female managers. The rationale for this is that gender equality in base salaries is more and more regulated by law, and any differences could be explained by factors other than gender (such as experience, responsibilities, education, etc.), but the relative difference would not be expected to increase significantly when adding the more subjective incentives and bonuses.

None of the European countries show truly equal remuneration for men and women on any level.

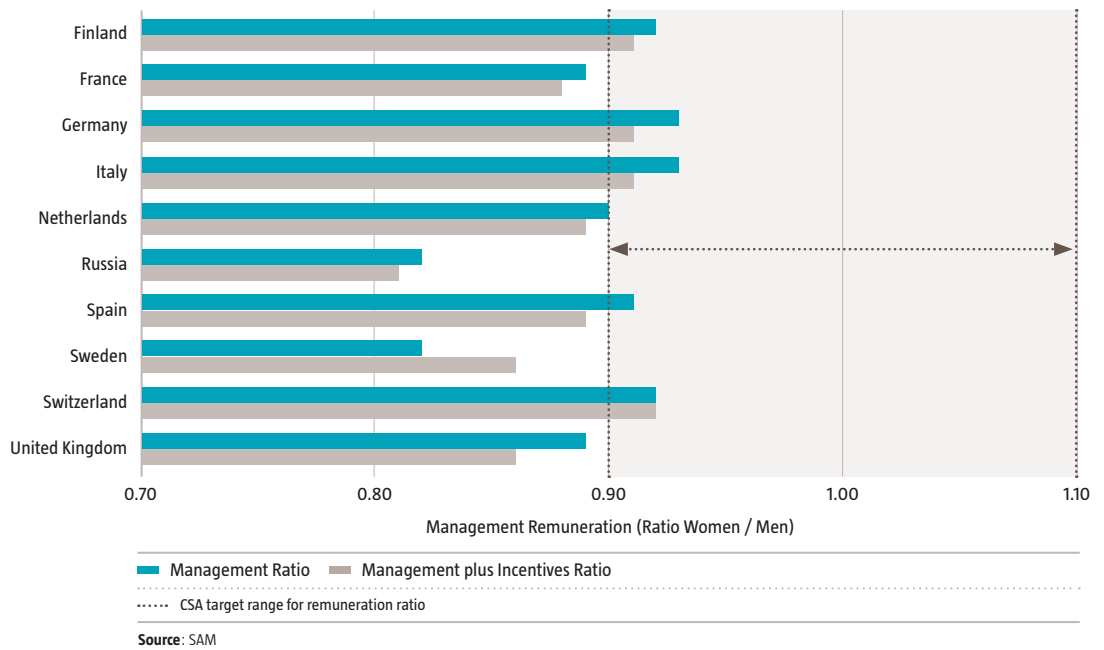
Figure 30: Basic remuneration gap is smallest for employees in non-management levels in Europe



Generally, the basic remuneration gap is lowest for non-management level employees across Europe, with only France, the Netherlands, Russia and Switzerland showing more equal remuneration on the executive level. Importantly, none of the countries show truly equal remuneration for men and women on any level. SAM gives full Score to companies with a ratio of

between 0.9 and 1.1 for female and male base salaries. With an average ratio of 0.96 for non-management employees, Germany comes close to a ratio of 1. The UK shows the highest shortfall with a ratio of 0.8 for company executives. No European country has an average ratio below 0.8 on any level.

Figure 31: Taking into account managements' other cash incentives negatively impacts the remuneration ratio between women and men



A comparison of **basic management remuneration and management remuneration plus incentives** indicates whether equality is upheld when it comes to further incentivizing managers for their work. While SAM's data show a difference in the gender gap for both measures, this difference is fairly small in most countries. Nevertheless, the results confirm SAM's expectation that adding other cash incentives to the equation has a negative impact on gender equality. The only exception in this respect is Sweden where the otherwise pronounced pay gap shrinks when cash incentives are taken into account – however, even then, Sweden's average ratio still falls short of SAM's minimum threshold of 0.9. On the positive side, four countries – Finland, Germany, Italy, and Switzerland – meet SAM's expectations with a ratio of at least

0.9. Spain achieves SAM's target in terms of basic management remuneration, but falls short when it comes to management remuneration plus incentives.

Conclusion: Social Dimension

The conclusion from the CSA results in the Social Dimension is that Europe outperforms other regions when it comes to social sustainability factors, and performs particularly well on the Corporate Citizenship & Philanthropy as well as Social Reporting criteria, but still has significant room for improvement in other key areas, particularly Human Rights but also Talent Attraction & Retention, Human Capital Development and Labor Practice Indicators. Pressure from the public and the investor community, as well as regulatory drivers such as the possible development of a future EU "Social Taxonomy" and the SDGs should provide for continued momentum in the integration of social issues in the future – a dynamic that will strengthen companies' supply chains, operational performance and overall competitiveness, and should be reflected in SAM's future Europe Progress Reports.

Companies in Finland, Germany, Italy, and Switzerland on average meet SAM's expectations with a remuneration ratio of at least 0.9 between women and men in management.

Conclusion

Companies that do not integrate sustainability factors into their business strategy put their long-term competitiveness at risk, and those that do not proactively communicate their sustainability strategy and performance are missing an opportunity to attract long-term investors.

By and large, European companies seem to have grasped this truth: The 2019 results of the SAM Corporate Sustainability Assessment (CSA), which focuses on material sustainability factors that could impact companies' value drivers, competitive position, and thus long-term shareholder value creation, show that European companies have an overall solid understanding of how to address corporate sustainability. In line with Europe's international reputation as a forerunner of sustainability thinking, European companies also outperform their global peers across the Economic, Environmental and Social Dimensions of the CSA.

However, in absolute terms, the European companies' Average Scores of 60, 67 and 58 (out of 100) for the Economic, Environmental and Social Dimensions, respectively, point to considerable further room for improvement.

The 2019 results of the SAM CSA show that European companies have an overall solid understanding of how to address corporate sustainability.

Among the 10 countries featured in this report, Spanish companies stand out with particularly strong absolute results in all three Dimensions, while Russian companies, largely first time CSA participants, have most room for improvement. All other country Average Scores are in a relatively tight together, roughly in a 10-point range. This seems to indicate a similar level of commitment to sustainability management and transparency across these countries. In addition, the CSA results point to a European-wide prioritization of environmental issues over other sustainability issues as companies in all countries except Russia achieved higher Average Scores in the Environmental Dimension than in the Economic and Social Dimensions.

In line with the CSA results for all other global regions, European companies that actively participated in the CSA achieved better Scores for their management of sustainability issues than companies assessed only on the basis of publicly available information. Arguably, this reflects a greater commitment to sustainability and to improving through benchmarking on the part of active participants, who see business value in the CSA process.

In this context, the fact that CSA participation increased in many of the European countries covered in this report is encouraging as it indicates that more companies are taking a progressive, holistic approach to sustainability management. As a credible external assessment of where a company stands in terms of its sustainability efforts and performance, the CSA not only helps companies to identify gaps and close them, but also raises the bar each year. As such, it should contribute to continuous improvements in the European corporate sustainability landscape over time.

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