

Strategic Scorecards

CECP BOARD OF BOARDS

“What gets measured gets done.”

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CECP

THE CEO FORCE
FOR GOOD

Fortune® 500 Scorecard Analysis

Performance snapshot of CECP companies versus the Fortune® 500

Analysis reflects most current data available; in May CECP will publish FY2017 versus prior year. CECP companies and All other Fortune® 500 companies include all nine industries using Bloomberg classification. Please note CECP companies have higher representation of Financial and Health Care companies.



PERFORMANCE (Financial)		FY2015	FY2016	Favorable Delta Δ in green
Revenues (Median, in US\$ Billions)	CECP companies	16.6	16.6	0.3%
	All other Fortune® 500 companies	9.4	9.6	2.2%
EBITDA (Median, in US\$ Billions)	CECP companies	3.3	3.2	-2.2%
	All other Fortune® 500 companies	1.2	1.3	9.1%
EBITDA to Revenue (Median, Ratio)	CECP companies	21.3	20.9	-2.0%
	All other Fortune® 500 companies	13.0	13.5	4.2%
Enterprise Value/EBITDA (Median, %)	CECP companies	12.4	13.4	+1.0 pp
	All other Fortune® 500 companies	11.5	11.8	+0.3 pp
Return on Invested Capital (Median, %)	CECP companies	8.4	8.0	-0.4 pp
	All other Fortune® 500 companies	8.0	7.6	-0.5 pp
Market Capitalization (Median, in US\$ Billions)	CECP companies	29.2	32.8	12.4%
	All other Fortune® 500 companies	9.6	10.8	11.8%
PLANET (Resource Use)		FY2015	FY2016	Favorable Delta Δ in green
Greenhouse Gas Emissions (Median, in Millions of Metric Tons)	CECP companies	1.0	1.0	-2.7%
	All other Fortune® 500 companies	1.2	1.2	1.5%
Water Use (Median, in Millions of Cubic Meters)	CECP companies	3.4	3.7	7.2%
	All other Fortune® 500 companies	9.6	9.6	-0.5%
Recycled Waste (Median, in Thousands of Metric Tons)	CECP companies	32.6	34.1	4.4%
	All other Fortune® 500 companies	29.1	35.0	20.2%
Offers Products Addressing Climate Change (%)	CECP companies	2.7	3.4	+0.7pp
	All other Fortune® 500 companies	1.3	2.6	+1.3pp
PEOPLE (Communities, Customers, Employees)		FY2015	FY2016	Favorable Delta Δ in green
Employee Turnover (Average, %)	CECP companies	13.1	12.5	-0.6 pp
	All other Fortune® 500 companies	17.2	18.7	+1.5 pp
Total External Social Investment (Median, in US\$ Millions)	CECP companies	24.9	25.3	1.9%
	All other Fortune® 500 companies	13.5	11.9	-11.9%
Total Giving as a % of Pre-Tax Profit (Median, %)	CECP companies	0.8	0.9	+0.1 pp
	All other Fortune® 500 companies	0.9	0.8	-0.1 pp
Women in Workforce (Median, %)	CECP companies	38.0	38.0	0.0 pp
	All other Fortune® 500 companies	30.0	30.0	0.0 pp
Training Spending per Employee (Average, in US\$ Thousands)	CECP companies	1.0	1.0	2.0%
	All other Fortune® 500 companies	1.0	0.7	-27.0%
Lost Time Incident Rate per 100K Employees (Average, Ratio)	CECP companies	0.4	0.4	3.2%
	All other Fortune® 500 companies	0.6	0.6	-8.8%
POLICIES (Governance)		FY2015	FY2016	Favorable Delta Δ in green
CSR/Sustainability Committee (%)	CECP companies	37.4	36.8	-0.6 pp
	All other Fortune® 500 companies	18.3	19.6	+1.3 pp
Women on Boards (%)	CECP companies	23.0	25.0	+2.0 pp
	All other Fortune® 500 companies	18.0	18.0	0.0 pp
Business Ethics Policy (%)	CECP companies	100.0	100.0	0.0 pp
	All other Fortune® 500 companies	99.7	100.0	+0.3 pp
Social Supply Chain Risk Management (%)	CECP companies	68.6	74.8	+6.3 pp
	All other Fortune® 500 companies	49.6	55.4	+5.7 pp
ESG Linked to Bonus (%)	CECP companies	32.7	32.2	-0.6 pp
	All other Fortune® 500 companies	18.4	18.0	-0.4 pp

The value of CECP companies was higher: CECP companies out-performed in terms of Revenues, Enterprise Value/EBITDA (Multiple Ratio), and Market Cap

+12.4%

Market Cap increase for CECP Companies

CECP Companies Caring for the Environment:

Greenhouse Gas Emissions decreased, Recycled Waste increased, and Offering of Products Addressing Climate Change also increased among CECP companies

-2.7%

Greenhouse Gas Emissions reduction rate for CECP companies

Better Societal Outcomes for CECP companies:

Less Employee Turnover, more External Social Investment, more Total Giving as a % of Pre-Tax Profits, more Women in the Workforce, more Training Spending per Employee among CECP companies

+1.9%

Growth Rate of Total External Social Investments from CECP companies.

CECP Companies putting more Governance Policies in place:

More Women Representation on Boards and Social Supply Chain Risk Management policies than all other companies

+2.0 pp

Percentage points of increase in terms of % of Women on Boards

Notes and Methodology: "CECP companies" consist of companies affiliated with CECP as of February 2018. "All other Fortune® 500 companies" consist of all other companies in the Fortune 500 ranking. Fortune magazine is a registered trademark of Time Inc. Monetary figures are measured in nominal US Dollars. Data is retrieved from CECP's dataset and the Bloomberg database. Sample size ranges between 20 to 335, this variation is derived from differences in metrics data availability. Green growth rates indicate a favorable change. In limited cases, percentage point change replaces growth rate. Year-over-year calculations are based on a two-year matched- set data. "pp" corresponds to percentage point changes that evidence deltas between metrics reflecting percentages. Both CECP companies and All other Fortune® 500 companies include companies from all nine industries from the Bloomberg Terminal, however, CECP companies have higher representation of Financials and Health Care companies. All other Fortune® 500 companies have higher representation of Consumer Discretionary and Industrials companies.

Strategic Scorecard Background and Recommendations

“What gets measured gets done.”



BACKGROUND

CECP hears frequent questions on reporting progress:

- › 15+ years of collecting and analyzing data of 300+ multi-billion dollar companies
- › CECP’s network of 200+ companies and 100+ quarterly interactions with executives, investors, and team heads has informed our organization since our founding in 1999.
- › CEOs at the 2017 Board of Boards conference requested CECP follow-up on Alex Gorsky (CEO, Johnson & Johnson)’s discussion of their Board of Director’s “Strategic Scorecard” reviews. With that kick-off CECP compiled Johnson & Johnson’s insights, other companies, and expert insights.

GOAL

CECP’s goals around helping companies improve their Strategic Scorecards are summarized as:

- › Increase the use of long-term milestones for measuring progress;
- › Share an “above the fray” view to build industry momentum around an approach that narrows the list of available metrics;
- › Provide forward-thinking insights to advance the field, while flexible for individual company application based on their strategies. Customization is key.

APPROACH

CECP’s approach is informed by:

- › CECP’s Strategic Investor Initiative (SII) Investor Letter¹
- › SII collection of investor/stakeholder feedback, detailed in the article “Far Beyond the Quarterly Call: CECP’s First CEO-Investor Forum”²
- › Analytic compilation and review of 50+ Fortune® 500 companies ESG-driven scorecards
- › Multi-year analysis of ESG (Environment, Social, and Governance) trends from Bloomberg’s database and Thomson Reuter’s Eikon database.

PRINCIPLES OF STRUCTURE:

Compare your company’s current practices to the principles and circle the one you think is your company’s greatest opportunity for improvement.

- › **BALANCE** *The balance of categories on your strategic scorecard.* Often companies could seek greater balance between Performance (over-emphasized) and all other categories. Also, consider the balance of leading and lagging indicators.
- › **BASELINE** *The method of tracking progress.* Often companies are limited to year over year and there is an opportunity to build in short- and long-term targets, goals, or milestones to reinforce future plans.
- › **BREVITY** *The quantity of metrics.* Build team alignment around a Vital Few metrics. Few can mean different things for different companies, but, within each category it’s more likely to mean 3-5, not 35.

PRINCIPLES OF CONTENT:

How can your company use and improve its Strategic Scorecard? Strategic Scorecards are typically internal, focused on long-term metrics, adjusted annually, and tracked quarterly. Help decide by rating the principles below (sourced from SII Investor Letter signed by Bill McNabb of Vanguard and nine other leading institutional investors of the SII Advisory Board).

STRATEGIC SCORECARD	IMPORTANCE Low to High	EXECUTION Not Started to Done
Shows oversight on risks	1 2 3 4 5	1 2 3 4 5
Shows financially material business issues, including ESG	1 2 3 4 5	1 2 3 4 5
Addresses long-term human capital requirements	1 2 3 4 5	1 2 3 4 5
Helps interaction with shareholders and key stakeholders	1 2 3 4 5	1 2 3 4 5
Communicates governance composition and frequency of Board review	1 2 3 4 5	1 2 3 4 5
Tracks progress against annual target, goal, or milestone	1 2 3 4 5	1 2 3 4 5
Reinforces long-term (3-5 years) plans	1 2 3 4 5	1 2 3 4 5
Exhibits CEO engagement in material issues	1 2 3 4 5	1 2 3 4 5

¹ Cecp.co/SII; ² Journal of Applied Corporate Finance, Volume 29, number 2, Spring 2017. “Far Beyond the Quarterly Call: CECP’s First CEO-Investor Forum,” Tim Youmans and Brian Tomlinson, Available at CECP.co

Strategic Scorecard Template

The draft template helps visualize what a Strategic Scorecard could look like for one company.



PRIORITIES (Strategy, Operations)	Current Year	Previous Year	1 Year Target	Long-Term Target	Status	Comments
Customer Metric X						
Market Share (%)						
Research and Development						
Capital Expenditure (\$)						
Strategy Y						
PERFORMANCE (Financial)	Current Year	Previous Year	1 Year Target	Long-Term Target	Status	Comments
Revenues (\$)						
EBITDA (\$/%)						
Enterprise Value to EBITDA (Ratio)						
Market Capitalization (\$)						
Return on Invested Capital						
PEOPLE (Communities, Customers, Employees)	Current Year	Previous Year	1 Year Target	Long-Term Target	Status	Comments
Employee Turnover (%)						
Women in Workforce/Workforce Diversity (%)						
Total Social Investment (\$M)						
People Issue X						
People Issue Y						
PLANET (Resource Risk)	Current Year	Previous Year	1 Year Target	Long-Term Target	Status	Comments
Greenhouse Gas Emissions						
Water Management						
Waste Management						
Planet Issue X						
Planet Issue Y						
POLICIES (Governance)	Current Year	Previous Year	1 Year Target	Long-Term Target	Status	Comments
Board Diversity (% Women)						
Business Ethics Improvement Policies						
Supply Chain Metric X						
Governance Metric Y						

Narrative: Strategic Scorecards represent execution across the company, decisions at the Executive level, and oversight at the Board of Directors level. While acknowledging not everything can be measured, scorecards are a management tool for measurable risks, growth plans, and strategy. You can include narrative to explain metrics on comment lines or elsewhere on the page. Narrative should indicate if an external framework or method was used to help determine the financially material issues reported on the Strategic Scorecard. While the complete Strategic Scorecard may provide proprietary business information, certain metrics can also support communication with shareholders and other stakeholders on the company's long-term plans and progress.