STING CORPORATE ACCOUNTABILITY INDEX

RANK	COMPANY	SECTOR	SCORE	CLASSIFICATION
1	Dialog Telekom	ICT and telecommunications	82.15	Platinum
2	Cargills	Food, beverage and tobacco	77.65	Platinum
3	Maga Engineering	Manufacturing and construction	75.90	Platinum
4	Aitken Spence	Diversified holdings	75.85	Platinum
5	Ceylon Tobacco	Food, beverage and tobacco	74.80	Gold
6	Brandix	Apparel, footwear and textiles	73.40	Gold
7	John Keells Holdings	Diversified holdings	71.45	Gold
8	Coca-Cola Beverages	Food, beverage and tobacco	65.95	Gold
9	John Keells Hotels	Hotels and travel	65.55	Gold
10	Union Assurance	Banking, finance and insurance	65.50	Gold
11	HNB	Banking, finance and insurance	64.65	Gold
12	NDB bank	Banking, finance and insurance	64.35	Gold
13	E-wis	ICT and telecommunications	63.85	Gold
14	Aitken Spence Hotels	Hotels and travel	63.35	Gold
15	DIMO*	Motor and logistics	62.15	Gold
16	CIC	Petroleum, lubricants, chemicals and pharmaceuticals	61.65	Gold
17	Softlogic	Diversified holdings	60.60	Gold
18	Asian Hotels	Hotels and travel	60.30	Gold
19	Hayleys	Diversified holdings	59.10	Silver
20	People's Leasing*	Banking, finance and insurance	57.10	Silver
21	Commercial Bank*	Banking, finance and insurance	54.00	Silver
22	Ceylon Cold Stores	Food, beverage and tobacco	53.00	Silver
23	Hayleys Advantis	Motor and logistics	52.55	Silver
24	LOLC*	Banking, finance and insurance	51.00	Silver
25	Eagle Insurance*	Banking, finance and insurance	50.70	Silver
26	SriLankan Airlines*	Hotels and travel	49.80	Bronze
27	Hayleys MGT*	Apparel, footwear and textiles	43.75	Bronze
28	Dipped Products*	Manufacturing and construction	43.20	Bronze
29	DFCC Bank*	Banking, finance and insurance	42.25	Bronze
30	Richard Pieris*	Diversified holdings	41.60	Bronze
31	Chevron Lubricants*	Petroleum, lubricants, chemicals and pharmaceuticals	39.90	Unclassified
32	Singer*	Consumer durables	39.40	Unclassified
33	Ceylon Grain Elevators*	Manufacturing and construction	38.65	Unclassified
34	NSB*	Banking, finance and insurance	38.40	Unclassified
35	Colombo Dockyard*	Manufacturing and construction	38.10	Unclassified
36	Sampath Bank*	Banking, finance and insurance	38.00	Unclassified
	Nestlé Lanka*	Food, beverage and tobacco	38.00	Unclassified
38	Bank Of Ceylon*	Banking, finance and insurance	37.90	Unclassified
39	Hemas Holdings*	Diversified holdings	37.80	Unclassified
40	Sunshine Holdings*	Diversified holdings	37.00	Unclassified
41	Janashakthi Insurance*	Banking, finance and insurance	36.90	Unclassified
42	Browns*	Diversified holdings	36.50	Unclassified
43	Nations Trust Bank*	Banking, finance and insurance	36.40	Unclassified
	MBSL*	Banking, finance and insurance	36.40	Unclassified
45	Kuruwita Textiles*	Apparel, footwear and textiles	34.00	Unclassified
46	Haycarb*	Manufacturing and construction	33.85	Unclassified
47	Airport & Aviation Services*	Hotels and travel	33.00	Unclassified
48	State Mortgage & Investment Bank*	Banking, finance and insurance	32.90	Unclassified
	People's Bank*	Banking, finance and insurance	32.90	Unclassified
50	Tokyo Cement*	Manufacturing and construction	32.55	Unclassified
51	Sri Lanka Telecom*	ICT and telecommunications	32.20	Unclassified
52	Ceylon Theatres*	Diversified holdings	30.50	Unclassified
53	United Motors*	Motor and logistics	29.40	Unclassified
54	HDFC Bank*	Banking, finance and insurance	28.60	Unclassified
55	Ceylon Tea Services*	Food, beverage and tobacco	28.40	Unclassified
56	Lanka IOC	Petroleum, lubricants, chemicals and pharmaceuticals	27.75	Unclassified
57	ACL Cables*	Manufacturing and construction	27.50	Unclassified
58	Ceylinco Insurance*	Banking, finance and insurance	26.00	Unclassified
59	Central Finance*	Banking, finance and insurance	24.00	Unclassified
60	Seylan Bank*	Banking, finance and insurance	22.20	Unclassified
61	Bukit Darah*	Diversified holdings	20.90	Unclassified
62	State Pharmaceuticals Corporation*	Petroleum, lubricants, chemicals and pharmaceuticals	19.90	Unclassified
63	C. W. Mackie*	Diversified holdings	14.70	Unclassified
64	Lanka Ceramic*	Manufacturing and construction	13.50	Unclassified
65	Ceylon Brewery*	Food, beverage and tobacco	7.00	Unclassified
66	Distilleries*	Food, beverage and tobacco	4.90	Unclassified

* These companies did not respond to STING Consultants' questionnaire and have therefore been rated purely on the basis of publicly available information.

STING CORPORATE ACCOUNTABILITY INDEX

METHODOLOGY

Companies in THE LMD 50 and 10 key State Owned Enterprises (SOEs) were rated on a compulsory basis (since we had access to their annual and sustainability reports), and invitations to participate were extended to the largest private companies. Only six private companies accepted our invitation to complete a questionnaire, which took the total number of entities on our index to 66.

Businesses are categorised into broad bands (Platinum, Gold, Silver and Bronze), to provide an indication of the levels of advancement of their CSR performance. This hierarchical ranking will enable businesses to benchmark themselves against each other, and it is hoped that this will be a stimulus for improvement in the years to come.

Classification is based on the scores achieved as follows… Platinum: 75-100, Gold: 60-74.9, Silver: 50-59.9, Bronze: 40-49.9. The minimum score for classification is 40, so companies that scored below this level haven't been classified.

KEY ATTRIBUTES OF CSR

The scores are derived from a proprietary model that STING Consultants has developed to reflect a holistic approach to CSR, sustainability and governance. This model is based on a set of qualitative questions that are converted into a quantitative score through our expert panel of consultants.

All LMD 50 companies and the SOEs ranking as the largest in THE LMD STATE 20 had the option of completing the questionnaire and providing supporting evidence. However, only 15 responded. The rest were therefore scored on the basis of information in their annual reports, websites and sustainability reports.

When evaluating CSR, it is also crucial to take into account the ethical implications of a company's products. For this reason, organisations that manufacture 'negative products' such as tobacco and alcohol had penalty points deducted from their total scores. The scores presented in our index reflect their performances in terms of CSR, after deducting the penalty points.

The STING Corporate Accountability Index evaluates companies across six key areas, which together are the foundations of holistic CSR. In each of these areas, we rate companies against a range of criteria that enables us to determine whether or not they have incorporated into their overall management approach the basic ingredients required to operate in an accountable and responsible manner.

These key areas are weighted according to their relative importance in facilitating CSR (see pie chart) – and they are summarised as follows.

CORPORATE VALUES: Assesses whether a company has made an effort to define a set of high-level values that portray the role it wants to play in society, by incorporating principles of accountability and social responsibility in its corporate statements – such as a vision, a mission and so on.

STAKEHOLDER ENGAGEMENT: Assesses the extent to which a company engages with its key stakeholders and whether it provides adequate responses to key issues, concerns or grievances raised by stakeholders.

IDENTIFYING IMPACTS, RISKS AND OPPORTUNITIES: Assesses the extent to which a company is aware of the key impacts on sustainability that occur as a result of its operations, as well as whether it can identify and respond to credible risks and opportunities arising from such impacts.

POLICY COVERAGE: Assesses the extent to which a company has policies in place with regard to managing environmental impacts, labour practices, human rights and societal concerns.

MANAGEMENT AND GOVERNANCE: Assesses whether globally-recognised management systems are in place in respect of the environment, health and safety, quality and workplace practices. This section also assesses the nature of governance, and the extent to which accountability and social responsibility are given importance in corporate governance.

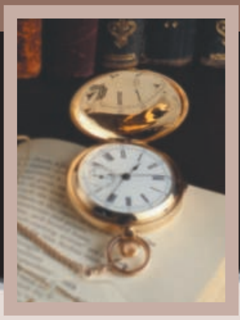
MEASUREMENT AND DISCLOSURE: Assesses the extent to which a company measures its performance against key environmental and social indicators. This section also assesses whether the company publishes a sustainability report that addresses its environmental, social and economic performance and impacts – and the quality, comparability and credibility of information in these reports.

ABOVE-AVERAGE SECTORS

1	ICT and telecommunications	59.40
2	Hotels and travel	54.40
3	Apparel, footwear and textiles	50.40
4	Motor and logistics	48.00
5	Diversified holdings	44.20

BELOW-AVERAGE SECTORS

1	Food, beverage and tobacco	43.71
2	Banking, finance and insurance	42.00
3	Consumer durables	39.40
4	Manufacturing and construction	37.90
5	Petroleum, lubricants, chemicals and pharmaceuticals	37.30



ETHICS AND TRANSPARENCY

CORPORATE CULTURE

With the Sri Lankan economy poised for takeoff and businesses gearing themselves to grow, invest and make more money, a fundamental question needs to be addressed. How should big business behave? How should it balance negative impacts such as utilising more resources with the resultant impact on the environment with, for example, the economic benefits of generating employment?

The STING Corporate Accountability Index provides some answers to this. And it sets out a report card on the ethical and transparency standing of Sri Lanka Inc.

As businesses grow and become more profitable, the common perception is that they need to give something back to the community. So invariably, the next step is to make a generous donation to a school in the vicinity or help an employee under the name of the latest business trend: Corporate Social Responsibility (CSR). Yet another trend is to be environmentally friendly, so a business would undertake a tree-planting initiative.

But these are ad-hoc initiatives that are bolted on to the company. Many of these actions aren't linked to the business the company is engaging in – and so, they are not integrated and nor are they sustainable.

CORPORATE ACCOUNTABILITY: Our definition of what we refer to as 'Corporate Accountability' encompasses a holistic approach which – when integrated into the daily functions of a company – enhances its ability to create economic, environmental and social value.

To achieve this, companies must look at CSR (a term which encompasses both sustainability and governance) in a fully-integrated manner. Companies must take ownership of their impacts on the economy, society and the environment (in other words, on *all* stakeholders), and thus work hard to minimise all the negative impacts that occur as a result of their day-to-day operations whilst maximising all the positive impacts that they create.

They must do so transparently, providing stakeholders with all the facts (whether they are positive or negative), so that all parties are aware of what is being done – and more importantly, of what more needs to be done to establish a sustainable future for us all.

The capability of an organisation to integrate this approach into its business operations is what is measured by the STING Corporate Accountability Index.

RELEVANCE OF ECONOMIC DOWNTURN: On the basis of this definition, CSR is not something that businesses can afford to ignore these days. This is evidenced by the fact that the collapse of various well-known financial institutions both at home and overseas was fundamentally due to a lack of accountability to their stakeholders, whether they be shareholders, customers, employees or other groups.

Furthermore, in the current context of recessions and crises, failing to address corporate accountability and impacts on stakeholders (both internal or external) will prove to the public that businesses that go to great lengths to show that they are responsible when times are good are doing nothing more than green-washing.

CSR is not something that can be discarded when the going gets tough, if it is to be believed. What's more, the public is no longer interested in what organisations *say*. Rather, they want to see what they *do* – and they will base their patronage (whether this is by means of investing in shares, consuming goods or seeking services or employment) on this basis.

This is reflected in our rating model, as corporate values (what organisations *say*) only account for four per cent of the holistic model, whilst all other areas look at how companies manage what they *do* – and therefore, together they account for the remaining 96 per cent (go to Methodology).

To ensure sustained growth, the business community has to make sure that it is accountable to all stakeholders and minimise any negatives that may occur as a result of what it does. If not, there will be more business collapses, more lost reputations and an even greater loss of investor confidence – and with Sri Lanka being subject to ever-increasing scrutiny by the international community, there is a likelihood that international pressure groups will begin to campaign against our business.

This would naturally be detrimental to the national economy, considering our dependence on exports and tourism, both of which rest on the whims of the ever-growing movement of ethical consumerism in the West.

Given the importance of CSR for business in Sri Lanka, it is time to analyse the status quo, to determine whether or not organisations are able to take advantage of the tremendous opportunities brought about by embedding accountability and responsibility into how business is conducted.

SHOCK!

Tiara Anthonisz and **Ruchi Gunewardene** discuss the ideals of business culture in the context of being transparent and doing business ethically.

REPORT CARD: Sadly, the outlook is rather gloomy. The average score of Sri Lanka's largest businesses is a mere 44.1 on the index, which means that our study places Sri Lanka Inc. at only a bronze level of accountability.

Why is this the case? Very few companies are transparent about their impacts, we find. Hardly any seem to recognise social and environmental aspects as presenting potential risks or opportunities. And very few have policies in place to address these factors.

Hardly any engage with their stakeholders in a meaningful way and leave themselves open to facing conflicting interests, a lack of confidence, stakeholder unrest and as a result, a potential loss of reputation.

Almost none have embedded CSR into their governance processes – some don't even have adequate systems of corporate governance in place. Very few have externally-certified systems to manage areas of environment, health and safety, or working conditions and human rights.

MEDIA SERVICES PHOTOFILE (DIALOG)

And rarely do they measure their impacts or report these to their stakeholders in a balanced and credible manner.

The end-result is that very few businesses are well placed to ride the waves of peace and experience sustainable growth – for themselves and the economy – over the long run.

But there are a few who are…

For instance, Dialog Telekom (whose CSR focus is determined by feedback from stakeholders, enabling it to address the most material issues) clearly understands that CSR is not the same as philanthropy. This is evident from Dialog's clear distinction between 'integral CR' and 'outreach CR'.

Dialog recognises that a business must first manage itself internally by minimising all negative impacts – as it does, for instance, through its mobile-waste management programme, thereby addressing the growing problem of a direct by-product of its business activity.

Furthermore, it realises that outreach CR must also be strategic if it is to be viable in the long run. The majority of the company's outreach activity uses the core competency of the business (i.e. ICT) in order to engage in what it refers to as "innovative connectivity-based social-development initiatives".

Dialog is thus one of the few companies that has properly integrated CSR into its core business.

Being one of the country's largest buyers of produce and livestock, Cargills has a huge impact on rural farming communities. The company realises this impact and also the importance of establishing solid relationships within its supply chain.

Strong links have therefore been established between Cargills and farmer communities through its direct-purchasing model, thereby guaranteeing farmers' livelihoods whilst facilitating affordable prices for food supplies to its customers at the same time.

Cargills is therefore fostering social and economic development within a framework of sound environmental practices through its core business operation.

Then there is Maga Engineering, a company that doesn't have public shareholders to be accountable to – the stakeholder group that is mistakenly given exclusive priority by a majority of companies – but has nevertheless taken steps to improve its CSR performance

ICT AND TELECOMMUNICATIONS

Rank	Company	Score	Classification
1	Dialog Telekom	82.15	Platinum
2	E-wis	63.85	Gold
3	Sri Lanka Telecom	32.20	Unclassified
	AVERAGE	**59.40**	

MANUFACTURING AND CONSTRUCTION

Rank	Company	Score	Classification
1	Maga Engineering	75.90	Platinum
2	Dipped Products	43.20	Bronze
3	Ceylon Grain Elevators	38.65	Unclassified
4	Colombo Dockyard	38.10	Unclassified
5	Haycarb	33.85	Unclassified
6	Tokyo Cement	32.55	Unclassified
7	ACL Cables	27.50	Unclassified
8	Lanka Ceramic	13.50	Unclassified
	AVERAGE	**37.90**	

DIVERSIFIED HOLDINGS

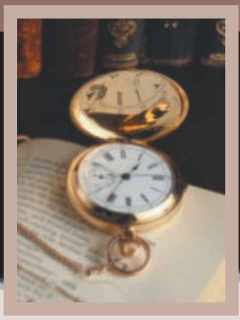
Rank	Company	Score	Classification
1	Aitken Spence	75.85	Platinum
2	John Keells Holdings	71.45	Gold
3	Softlogic	60.60	Gold
4	Hayleys	59.10	Silver
5	Richard Pieris	41.60	Bronze
6	Hemas Holdings	37.80	Unclassified
7	Sunshine Holdings	37.00	Unclassified
8	Browns	36.50	Unclassified
9	Ceylon Theatres	30.50	Unclassified
10	Bukit Darah	20.90	Unclassified
11	C. W. Mackie	14.70	Unclassified
	AVERAGE	**44.20**	

FOOD, BEVERAGE AND TOBACCO

Rank	Company	Score	Classification
1	Cargills	77.65	Platinum
2	Ceylon Tobacco	74.80	Gold
3	Coca-Cola Beverages	65.95	Gold
4	Ceylon Cold Stores	53.00	Silver
5	Nestlé Lanka	38.00	Unclassified
6	Ceylon Tea Services	28.40	Unclassified
7	Ceylon Brewery	7.00	Unclassified
8	Distilleries	4.90	Unclassified
	AVERAGE	**43.71**	

APPAREL, FOOTWEAR AND TEXTILES

Rank	Company	Score	Classification
1	Brandix	73.40	Gold
2	Hayleys MGT	43.75	Bronze
3	Kuruwita Textiles	34.00	Unclassified
	AVERAGE	**50.40**	



by establishing a corporate-sustainability framework within which all its business operations are undertaken.

This puts to shame a large number of listed companies who fail to recognise the importance of corporate accountability, as the lack of relevant information in their annual reports suggests.

Ceylon Tobacco (a. k. a. CTC) is another company that clearly understands and recognises the importance of properly implemented CSR, driven as it is by the sensitive nature of its business.

It is interesting to note that other companies in similarly sensitive sectors (for example, oil, extractives and alcohol) are at the very bottom of our rankings. This is strangely misaligned with global trends, where businesses in these sectors are at the forefront of CSR, probably so that they can maintain their respective licences to operate.

But CTC has ensured that CSR is embedded across the entire organisation, by incorporating sustainability into the governance procedures of the company through a board-level CSR steering committee. This means that all business decisions are made with these issues in mind.

Furthermore, the company realises the importance of transparency in accountability, and it discloses balanced and comparable measurements of its sustainability performance in its social reports. The additional issues addressed through these reports are also not what the company decides are appropriate to talk about (as is the case in most other company reports); but rather, what its stakeholders have asked CTC to address – stakeholders are the key audience of such reports, after all.

CTC is a benchmark that others should strive to follow. Despite being penalised through our rating process (go to Methodology overleaf) for its product being unsafe, it still scores a high 74.8.

Other organisations should make it their objective to improve their accountability practices to such an extent that they can score more than this – they will not, after all, be subject to product-related penalties.

So while a few businesses have integrated CSR into their operations, it is no longer sufficient for a handful of corporates to address it while the rest sit on their heels.

Corporate failure has such a reverberating impact on all of us (think Golden Key) that it isn't good enough if only a *few* do well… if but one or two fail, the entire economy is likely to follow.

WINNERS AND LOSERS: A sector-wise analysis of results creates further cause for concern, with sectors that have the largest impact (on both society and the environment) ending up as the poorer performers in terms of CSR.

ICT and telecommunications; hotels and travel; apparel, footwear and textiles; motor and logistics; and diversified holdings are above average. On the other hand, food, beverage and tobacco; banking, finance and insurance; consumer durables; manufacturing and construction; petroleum, lubricants, chemicals and pharmaceuticals emerge as being below average.

It must be remembered that the average score is just 44.1, so this still doesn't say much for Sri Lankan business – the highest scorer (ICT and telecommunications) manages an average of just 59.4.

Tourism and apparel being above average is an indication of the role international exposure has to play in encouraging proper practices of accountability and responsibility.

Western consumers (and investors) are increasingly looking at where the products they invest in have been produced – and more importantly, under what conditions. As Sri Lanka becomes more and more interconnected with the global economy, businesses in other sectors will also be forced to adopt similar practices. It is in their best interests to make these changes voluntarily, before regulations take hold.

Though the most visible diversified holdings have taken great steps to ensure accountability and responsibility, much work is still needed as this sector barely achieves an above-average status.

Given their size and wide-ranging interests, these groups of companies have an impact on the most extensive variety of stakeholders and thus the potential to set this country on the most sustainable path of social and economic development. It is their duty, therefore, to raise their levels of accountability to these stakeholder groups and reduce all negative impacts of their operations.

Consider also that 'stakeholders' aren't just groups affected by the activities of an organisation… stakeholders themselves can greatly affect a business. The greater the variety of stakeholders that can affect a company or group of companies, the more effort it must make to be accountable and responsible to them all.

The banking and finance sector being be-

SHOCK!

❝CSR is clearly still at a fledgling stage of development in Sri Lanka. Those who fail to take sustainability seriously will now find it even harder in the future…❞

low average is a very disappointing outcome. These entities are the providers of capital to the rest of the economy and therefore have the potential to be the driving force for other sectors to embed CSR into their business operations (and thereby ensure sustained as well as sustainable economic growth) through loan conditions, for instance. Much improvement is needed in this sector in particular.

And the food and beverage sector being below average is very disappointing too, since it has the greatest impact on rural farming communities. This means that more work should be done to ensure stable supply chains (the food security of the nation depends on this, as does the productivity of the Sri Lankan workforce).

Manufacturing and construction, and petrochemicals, create the largest negative environmental impact because of the nature of their operations. And with growing awareness of how they contribute to climate change, and the ever-increasing awareness of the effects of climate change itself, these sectors face the greatest risk from not being more proactive in regard to CSR.

MEDIA SERVICES PHOTOFILE (THUSITH WIJEDORU)

International regulations and local pressure groups will force these sectors to change their practices if they want to remain competitive, as buyers of manufactured products shift their demand to cleaner producers and public scrutiny of 'dirty industries' increases.

Furthermore, if Sri Lanka is to meet its carbon-reduction targets and establish itself as an all-round clean destination, it is up to these sectors to mitigate their impacts, as they are amongst the largest contributors to the country's carbon footprint.

There is little point in promoting our island as a carbon-clean tourist destination if the manufacturing and petrochemical sectors continue to undermine this.

THE FUTURE: CSR is clearly still at a fledgling stage of development in Sri Lanka. Those who fail to take sustainability seriously will now find it even harder in the future, given the constant state of change in the global economy as well as in the biosphere. It isn't too late to act, however.

If an organisation wants its stakeholders to really believe it is responsible and accountable, now is the time to make changes.

Companies that prove they are doing their utmost to be accountable, even in the face of financial turmoil, can win the trust of stakeholders who will believe they are genuinely making an effort. All that is required is a change of attitude. *The rest will follow...*

As for our index, the current methodology looks at the process of managing CSR and whether or not this has been integrated throughout a business. As the index – and the state of affairs in Sri Lankan business – develops, we will begin to assess the extent to which companies are improving their performance year-on-year.

It is our hope that this will give companies the momentum to make constant changes to their management approaches and thereby conduct business in the best way possible, enjoy the benefits that occur as a result and contribute towards sustainable development of the nation as a whole.

Tiara Anthonisz is the Business Analyst and Ruchi Gunewardene CEO of STING Consultants.

HOTELS AND TRAVEL

Rank	Company	Score	Classification
1	John Keells Hotels	65.55	Gold
2	Aitken Spence Hotels	63.35	Gold
3	Asian Hotels	60.30	Gold
4	SriLankan Airlines	49.80	Bronze
5	Airport & Aviation Services	33.00	Unclassified
	AVERAGE	**54.40**	

BANKING, FINANCE AND INSURANCE

Rank	Company	Score	Classification
1	Union Assurance	65.50	Gold
2	HNB	64.65	Gold
3	NDB bank	64.35	Gold
4	People's Leasing	57.10	Silver
5	Commercial Bank	54.00	Silver
6	LOLC	51.00	Silver
7	Eagle Insurance	50.70	Silver
8	DFCC Bank	42.25	Bronze
9	NSB	38.40	Unclassified
10	Sampath Bank	38.00	Unclassified
11	Bank Of Ceylon	37.90	Unclassified
12	Janashakthi Insurance	36.90	Unclassified
13	Nations Trust Bank	36.40	Unclassified
14	MBSL	36.40	Unclassified
15	State Mortgage & Investment Bank	32.90	Unclassified
16	HDFC Bank	28.60	Unclassified
17	People's Bank	32.90	Unclassified
18	Ceylinco Insurance	26.00	Unclassified
19	Central Finance	24.00	Unclassified
20	Seylan Bank	22.20	Unclassified
	AVERAGE	**42.00**	

PETROLEUM, LUBRICANTS, CHEMICALS AND PHARMACEUTICALS

Rank	Company	Score	Classification
1	CIC	61.65	Gold
2	Chevron Lubricants	39.90	Unclassified
3	Lanka IOC	27.75	Unclassified
4	State Pharmaceuticals Corporation	19.90	Unclassified
	AVERAGE	**37.30**	

MOTOR AND LOGISTICS

Rank	Company	Score	Classification
1	DIMO	62.15	Gold
2	Hayleys Advantis	52.55	Silver
3	United Motors	29.40	Unclassified
	AVERAGE	**48.00**	

CONSUMER DURABLES

Rank	Company	Score	Classification
1	Singer	39.40	Unclassified
	AVERAGE	**39.40**	

CSR PERSPECTIVES

UNRAVELLING THE CSR

Corporate Social Responsibility (CSR) has now been widely accepted as a business practice. Even its most ardent critics have come around. The Economist, for instance, published a harsh critique of CSR in 2005, only to do the opposite three years later – it published an extensive Special Report on the merits of this management practice.

Whilst CSR has been adopted by Sri Lankan companies, the report card on the performance of Sri Lanka Inc. is only a Bronze or a 'Pass' grade equivalent.

The reason for this is clear. Businesses in this country are aware of the need for CSR, but they simply don't have a clear understanding of what it really entails. This is evident when 83 per cent of corporates that appear in the index talk about CSR (or at least, what they believe CSR to be) in their annual reports, which is a clear indication of their awareness of the need to engage in practices of responsibility.

However, the majority of these are mere PR exercises that portray the feel-good activities of an organisation. To untangle the perception of what should be addressed in the name of CSR, it is prudent to define it in the first place.

MYTH VS. REALITY: CSR is about how companies manage their business processes to create a positive impact on all stakeholders. This involves managing their operations in a manner that minimises all negative impacts on society and the environment, whilst maximising the positive impacts.

This must be done with transparency, so that all stakeholders are aware of the impacts created by business and can hold it accountable for them.

CSR therefore includes aspects that range from environmental management to supply-chain management, to ensuring healthy and satisfied employees, to providing customers with safe products and to becoming involved in developing local communities.

The practice of business involvement in communities – known as Corporate Community Involvement or Investment (CCI) – is a very small element of CSR as a whole. Communities are just one of the many stakeholder groups that CSR should address.

CCI refers to businesses contributing financial help, in-kind assistance or human resources such as time or skills, towards social initiatives that seek to meet the social and economic needs of the communities in which they operate.

It is in fact an umbrella term under which corporate philanthropy, sponsorship, cause-related marketing, employee volunteering and partnerships stand. These differ by the extent to which the business is involved in the activity.

For instance, philanthropy or charitable donations and sponsorships are generally characterised by paternalistic arms-length relationships, where one-off payments are made by the organisation; cause-related marketing involves simply linking the sale of a company's product to a particular charitable cause; and partnership involves the company working with other organisations (generally charities or NGOs) to solve social problems.

These can be thought of as waves of development of CCI, with philanthropy or sponsorship being the most basic – yet, it is the most common amongst the business community in Sri Lanka.

Globally, companies have come to realise that this form of engagement is insufficient. And so they have made their community investments more strategic and interlinked with their businesses. They have moved away from traditional cheque-book philanthropy and engage instead, in long-term strategic alliances with special-interest organisations. This ensures that they focus only on the areas in which they have a comparative advantage, thereby maximising the positive impacts they can create with the resources at their disposal.

To make their choice of community investment even

MYTH

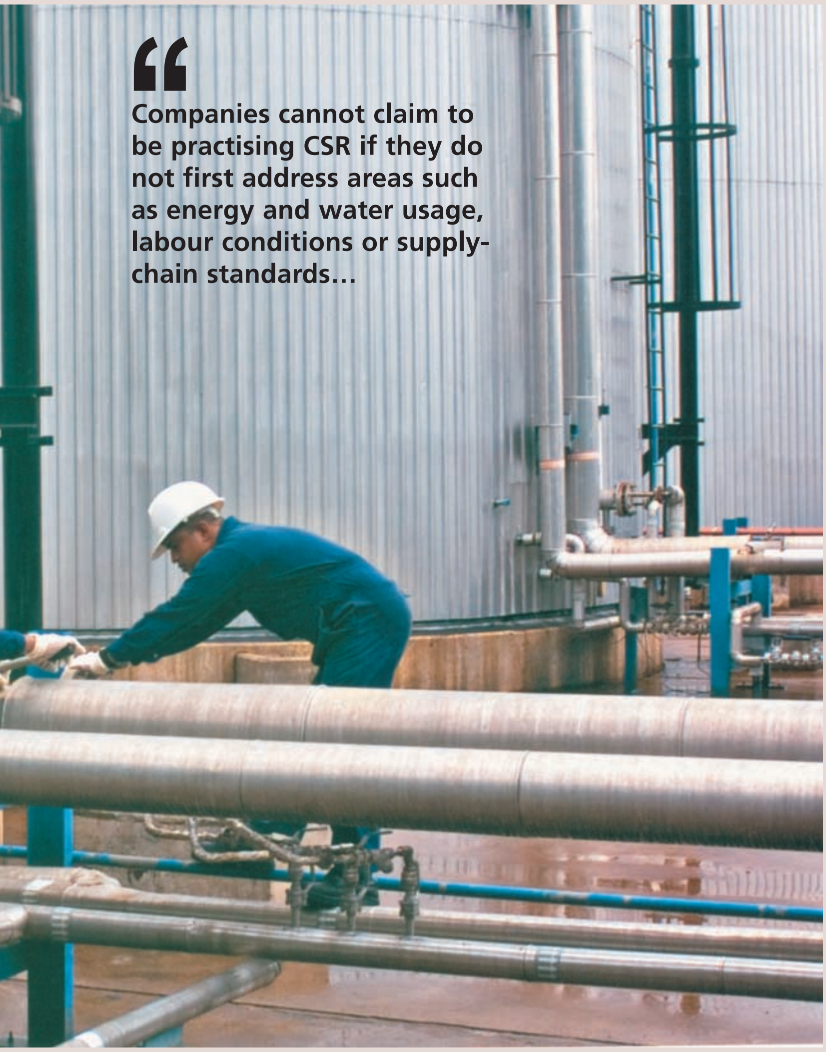
The business of CSR requires a strategic and holistic approach to meeting corporate responsibilities. **Tiara Anthonisz** explains.

more strategic, global corporations have begun to extensively measure and report the impacts of their community-investment activities through various globally established tools and frameworks.

This approach ensures that businesses are focusing on the most appropriate area, and it also provides stakeholders with an understanding of the actual impacts created by these entities through their CCI efforts – as opposed to what is spent on each initiative, which is what most local businesses talk about.

It must be remembered of course that for major global corporations, CCI is an additional component. They are first managing the impacts of their business operations and ensuring that they are accountable to all stakeholders – in other words, they are practising CSR.

CCI IS NOT CSR: So project-based investment in communities by companies is not the equivalent of CSR. Instead, CCI is a component of corporate responsibility. This is in stark contrast to what the majority of Sri Lankan businesses seem to believe vis-à-vis CSR. *Perhaps the confusion has been caused by the term 'CSR' itself, in particular its 'Social' aspect.*



MEDIA SERVICES PHOTOFILE (AITKEN SPENCE)

> **"Companies cannot claim to be practising CSR if they do not first address areas such as energy and water usage, labour conditions or supply-chain standards…**

For this reason, companies that understand what this management practice entails – Dialog Telekom is an example – have begun to refer to this simply as Corporate Responsibility (or CR), or Corporate Accountability in the case of the STING Index.

The terms 'sustainability' or 'triple bottom line' (which companies often use interchangeably with 'CSR') also don't just refer to communities. They are fundamentally about the economic, social and environmental arenas within which businesses operate – the 'social' arena refers to employees and customers, as well as communities and the range of other stakeholder groups that corporates have an impact on.

In the world's most widely used sustainability-reporting framework, the Global Reporting Initiative, aspects relating to CCI account for just five per cent of the indicators that should be measured and reported on. Companies cannot claim to be practising CSR if they do not first address areas such as energy and water usage, labour conditions or supply-chain standards for instance.

Having studied publicly-available reports of leading entities in Sri Lanka, we note that they talk about the money they have donated to various charitable causes, the effort they have put into repainting school buildings in rural areas, and sponsorship agreements they have entered into with this or that sports team.

But nowhere do they talk about how they treat their employees, how their employees feel about their work environment, what they are doing to prevent harmful discharges from their organisations into the environment or what they are doing to ensure high standards of conduct in their supply chains.

The real motive for their CSR-talk then appears to be public relations – the telltale sign usually being that the person responsible for CSR sits in the corporate-communications or marketing division.

Hardly any of these companies base their philanthropic decisions on feedback from stakeholders. Instead, one person decides on what cause to support – rendering this as being largely paternalistic, arms-length CCI, which is not interlinked with the core business, and is therefore not strategic and certainly not sustainable.

The majority of businesses in Sri Lanka are thus missing out on a vast array of opportunities and benefits that would result from being recognised as socially responsible and accountable.

They are also leaving themselves open to various risks, as a result of not managing their impacts properly and not engaging in meaningful dialogue with stakeholders. They are simply engaging in arms-length CCI through cash or in-

UNRAVELLING THE MYTH

kind donations, without focusing any of their energy on issues that relate to holistic CSR.

CCI, in the absence of CSR, will not last in the long run and has limited benefits (if any) for recipients, companies and the economy as a whole.

TOWARDS SUSTAINABLE CSR: CCI does not address the very reasons for CSR becoming a mainstream management practice.

The public awareness of issues created by major multinationals who set up operations in developing nations to take advantage of cheap labour and materials, and lax regulation; increasing name-and-shame action by NGOs, which has brought to light numerous child-labour scandals, human-rights violations, environmental damage and unsafe products; and the widespread agreement of the impacts on the environment caused by man – all of which resulted in the public demanding greater responsibility by companies who were in turn compelled to take action in order to avoid or put a stop to boycotts by pressure groups and the general public.

None of these demands for CSR are or can be addressed by philanthropy. They all require systematic assessments of the internal impacts of business on society, the economy and the environment, and a strong commitment to managing them effectively.

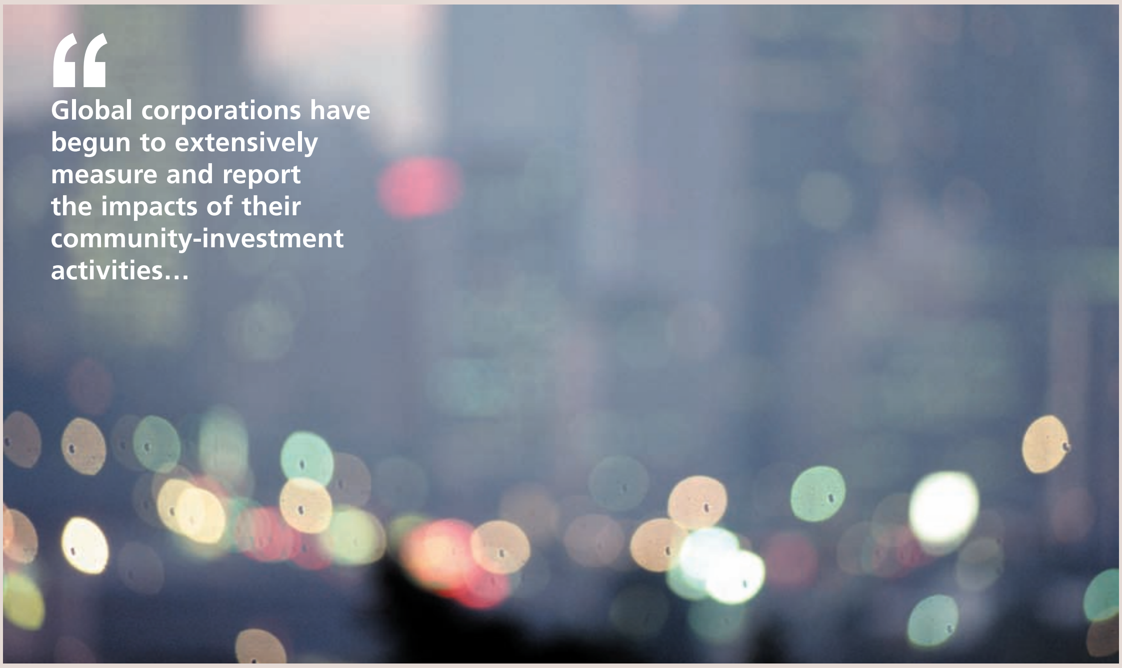
CCI also does not deal with the challenge posed by the media and the public of closely following cases of business irresponsibility, since it does nothing to contribute towards putting a stop to cases of irresponsibility like holistic CSR does.

Under prevailing economic conditions, businesses are seeking more and more ways to trim the fat. CCI is considered fat, since it essentially takes away from profits. There is little benefit to recipients if companies pull out from a particular charitable cause when times are tough – this is even likely to negate any social welfare that may have been caused by handouts, when employees are laid off so that businesses can survive, and more people are plunged into social and economic uncertainty.

If these companies are truly committed to making a positive long-term contribution to society, they need to engage in a practice that delivers lasting benefits, whilst also facilitating profitability. *Strategic CSR does this.*

Companies will manage their risks effectively, thereby preventing financial losses and improving their reputations. They will cut costs by managing inputs and waste effectively, which allows them to avoid laying-off workers. All this ensures stable or increasing share prices, which fosters further job creation and ensures livelihoods.

Community interests are thus best served by ensuring business sustainability through CSR.



PHOTODISC©

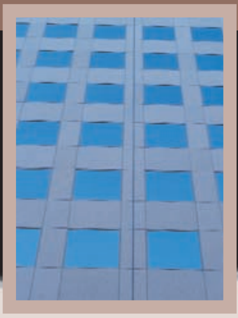
So companies in Sri Lanka need to practise properly integrated strategic CSR, if they are to be sustainable in the long run. This is not to say that business should not also be involved in their communities. This is after all, a component of CSR – and so yes, it should be addressed.

However, businesses need to first ensure that they are truly responsible and accountable to all stakeholders. It is only then that their community investments will be viable and beneficial to society in the longer term.

They will then be engaging in ‘real good’, rather than what can best be described as ‘feel good’.

CONCLUSIONS: The business of CSR, like any other, is characterised by a few leaders, some followers and a large number of stragglers. After a while, however, everyone will attempt to jump on the bandwagon by taking various actions that in their minds make them socially responsible.

Eventually, the winners will come from the ranks of those who have understood what it takes to execute corporate responsibility effectively – a strategic and holistic approach, in short.



BRANDING AND CSR

STRATEGIC CSR BUILDS

Having challenged the notion that CSR is all about philanthropic giving or green initiatives, the next step is to work out how businesses can leverage a strategic approach to CSR in order to build strong brands.

In the modern, interactive world that we live in, the ordinary consumer has an enormous amount of power to voice his or her opinions and be heard. This is an era in which the power to influence has flowed from businesses to the small investor and the ordinary consumer.

This shift in power has meant that businesses need to listen to their stakeholders and engage with them – and take relevant and timely action.

Gone are the days when businesses could simply communicate what they are doing… and for consumers to believe them. In this modern era, it is not what you *say* but what you *do* that matters most.

CHANGING PARADIGM: This change is significant, because management can no longer sit behind a desk and plot what they want to say with their public-relations agency. This is an era in which managers need to actively engage with their stakeholders, carry out research and then decide on a course of action based on those findings… before, that is, they even begin to communicate.

Essentially, this is about understanding expectations and delivering them through actions that enhance and protect the corporate brand.

This is easier said than done, of course…

Having said that, many progressive companies are in fact successfully engaging in this mechanism and reaping rich rewards, the benefits of which accrue to their brands.

Think Ceylon Tobacco or CTC as it is also known, and Cargills. Their management is heavily involved in actively engaging with their stakeholders. A desk doesn't separate these managers from their stakeholders. The managers are, in fact, in the front line – facing stakeholders and explaining what they stand for, one-on-one.

One could argue that for CTC, this stakeholder-engagement mechanism is a must, if it is to offset the negatives associated with tobacco and smoking. But in spite of the negatives associated with its product, to the objective reader, CTC is a reputable blue-chip corporate. Hence, it is gaining considerable value by adopting this process.

It could be argued that Distilleries (a. k. a. DCSL) is in a similar situation. But some may feel that it takes no such action and isn't therefore perceived to be as reputable. DCSL finds itself way down on the STING Corporate Accountability Index this year.

Cargills, on the other hand, is using its considerable reach to evolve its business model from being that of a pure retailer who purchases supplies, to a logistics-and-support company that links farmers at one end with consumers at the other. This model can enhance its brand substantially.

These examples are indications of how companies can build a competitive advantage through a strategic approach to CSR – one that directly influences the way it does business and impacts the brand.

ROLE OF A BRAND: So yes, there are several ways in which a company can build brand equity, as follows:

- Through the quality of its products or services.
- By means of actions that relate to how it runs its business (i.e. governance) and how it goes about doing business (ethics).
- Via actively managing its image and perceptions.

Building a corporate brand, therefore, requires an understanding of all stakeholders – and their different needs and perceptions on the one hand, and aligning the actions of the company towards what management wants the brand to stand for on the other.

Managing this dynamic is the responsibility of the CEO. It involves engaging with stakeholders and getting first-hand feedback through interaction or market research.

However, the basic foundation of the business must be that it has the right systems and controls, and an ethical working environment that has sound procedures of governance in place.

Most corporates in Sri Lanka take this for granted. They have a loose understanding of the manner in which they are run. Very few have incorporated this into their standard operating procedures, or used it to build their corporate culture or have established policies in writing on which employee performance is evaluated. We are now operating in a post Golden Key era, where many people have got their fingers burnt. Trust is more than what you say. It's about what you do and how you treat your customers, employees and suppliers.

As we all know, because of the Golden Key fiasco, the Ceylinco brand is now severely under strain and is no longer the trusted financial institution that it was. This is primarily because of a lack of accountability and governance. In fact, research conducted by Brand Finance Lanka in the fourth quarter of last year concludes that because of such financial scandals, customers now trust government-backed financial brands since they know

Businesses can leverage a strategic approach to CSR to build strong brands, as the apparel industry has done successfully. **Ruchi Gunewardene** elaborates.

that even if they are badly run, the state will bale them out. These, then, are the challenges on which a business that intends building a reputation of trust and confidence around its brand would approach its task. No longer is a slick advertising slogan likely to convince people to do business with you. Instead, they will be looking at the foundations on which you have built your business.

BRAND-BUILDING INITIATIVES: This new way of thinking outdates the old marketing mantra – that you commence your planning process with the consumer. It is not so in today's world.

What's the point in providing a good service to your customers if you are paying and treating your employees poorly? It is just a matter of time before this results in poor customer service, because your employees are unhappy. The same is true of your suppliers, distributors and so on.

NEED FOR TRUST: As a result of the global financial crisis, consumers have lost confidence in big business and calls for greater accountability have grown stronger.

Whilst some research suggests that consumers would pay a premium for sustainable products, they are willing to 'punish' organisations with poor corporate-responsibility records.

Thus, building stakeholder confidence is essential for a company's survival. Stakeholders must have trust in a corporation's financial data, products, services, stated values, integrity and leadership.

Governments have also begun to demand greater accountability through a multitude of channels, the most obvious being by means of regulation. Even if the Sri Lankan Government has no immediate plans to intervene, customers in other countries will expect local businesses to comply with international standards.

MEDIA SERVICES PHOTOFILE (SLIMLINE)

> **"Sri Lanka Apparel is a classic success story, in terms of how it built and is building a brand…**

Once you jump the hurdle of identifying all of your stakeholders, the next challenge is to understand what their expectations are. And the only way to do this is by going out and meeting and talking to them. Many organisations are amazed at what they hear and learn during this process. The next challenge is to be able to balance the conflicting needs of stakeholders. How do you balance the higher pay that your team wants with lower prices that customers demand?

This is nothing new; but in the new paradigm, senior-management time is required to understand these issues in a deeper sense and actively manage them whilst creating new and innovative solutions for a sustainable business. In this context, having a well-defined articulated brand is essential. This helps direct the stakeholder-engagement process in a focused manner – and it enables the management to implement initiatives that nudge the organisation to move towards its defined goals.

Trade agreements and operating licences are another source of inter-governmental pressure, as we've seen in the GSP-Plus debate with the European Union.

Sri Lanka Apparel is a classic success story, in terms of how it built and is building a brand. This initiative took root long before the GSP-Plus surfaced – its beginnings were some four years ago.

At that point, through research and a stakeholder-engagement process, STING Consultants (which was entrusted with the project) found that there was a clear opportunity to build a differentiated brand on an ethical platform because it was relevant to key stakeholders.

Based on this insight, the brand was built not on advertising but on creating a foundation that was intrinsically locked into ethical manufacturing standards. This was captured through a certification scheme, which further endorsed what the brand stands for.

This, then, is the new way forward for brand building.