STING CORPORATE ACCOUNTABILITY INDEX

RANK 2011	RANK 2010	COMPANY	SECTOR	SCORE	CHANGE	CLASSIFICATION
1	1	Dialog Axiata	ICT and telecommunications	81.15	▼	Platinum
2	4	Aitken Spence	Diversified holdings	80.05	▲	Platinum
3	2	Cargills	Food and beverage	78.95	▲	Platinum
4	3	Maga Engineering	Manufacturing and construction	78.55	▲	Platinum
5	7	John Keells Holdings	Diversified holdings	75.90	▲	Platinum
6	11	HNB	Banking, finance and insurance	75.55	▲	Platinum
7	15	DIMO*	Motor and logistics	75.35	▲	Platinum
8	5	Ceylon Tobacco Company	Alcohol and tobacco	74.70	▼	Gold
9	14	Aitken Spence Hotels	Hotels and travel	72.10	▲	Gold
10	6	Brandix Lanka	Apparel, footwear and textiles	69.75	▼	Gold
11	8	Coca-Cola Beverages	Food and beverage	68.85	▲	Gold
12	18	Asian Hotels	Hotels and travel	67.85	▲	Gold
13	16	CIC	Diversified holdings	66.40	▲	Gold
14	9	John Keells Hotels	Hotels and travel	64.90	▼	Gold
15	19	Hayleys*	Diversified holdings	62.30	▲	Gold
16	20	People's Leasing Company	Banking, finance and insurance	61.65	▲	Gold
17	22	Ceylon Cold Stores	Food and beverage	60.90	▲	Gold
18	12	NDB bank	Banking, finance and insurance	60.45	▼	Gold
19	21	Commercial Bank*	Banking, finance and insurance	60.25	▲	Gold
	23	Hayleys Advantis	Motor and logistics	60.25	▲	Gold
21	10	Union Assurance	Banking, finance and insurance	59.55	▼	Silver
22	-	Printcare	Manufacturing and construction	55.40	-	Silver
23	-	Finlays*	Diversified holdings	55.30	-	Silver
24	36	Sampath Bank	Banking, finance and insurance	53.10	▲	Silver
25	-	Finlays Tea Estates	Diversified holdings	51.85	-	Silver
26	38	Bank Of Ceylon*	Banking, finance and insurance	50.85	▲	Silver
27	34	NSB*	Banking, finance and insurance	50.45	▲	Silver
28	24	LOLC*	Banking, finance and insurance	50.20	▼	Silver
29	25	Aviva NDB Insurance*	Banking, finance and insurance	50.05	▼	Silver
30	30	Richard Pieris*	Diversified holdings	49.85	▲	Bronze
31	39	Hemas Holdings*	Diversified holdings	46.30	▲	Bronze
32	54	HDFC Bank*	Banking, finance and insurance	44.90	▲	Bronze
33	29	DFCC Bank*	Banking, finance and insurance	43.85	▲	Bronze
34	27	Hayleys MGT*	Apparel, footwear and textiles	43.50	▼	Bronze
35	60	Seylan Bank	Banking, finance and insurance	43.20	▲	Bronze
36	41	Janashakthi Insurance	Banking, finance and insurance	42.65	▲	Bronze
37	32	Singer*	Consumer durables	41.50	▲	Bronze
38	31	Chevron Lubricants*	Petroleum, lubricants, chemicals and pharmaceuticals	41.15	▲	Bronze
39	36	Nestlé Lanka*	Food and beverage	39.85	▲	Unclassified
40	51	Sri Lanka Telecom*	ICT and telecommunications	38.10	▲	Unclassified
41	35	Colombo Dockyard*	Manufacturing and construction	37.65	▼	Unclassified
42	26	SriLankan Airlines*	Hotels and travel	37.10	▼	Unclassified
43	28	Dipped Products*	Manufacturing and construction	36.60	▼	Unclassified
44	46	Haycarb*	Manufacturing and construction	36.45	▲	Unclassified
45	40	Sunshine Holdings*	Diversified holdings	35.35	▼	Unclassified
46	33	Ceylon Grain Elevators*	Food and beverage	33.60	▼	Unclassified
47	42	Browns*	Diversified holdings	32.85	▼	Unclassified
	55	Ceylon Tea Services*	Food and beverage	32.85	▲	Unclassified
49	45	Kuruwita Textiles*	Apparel, footwear and textiles	32.25	▼	Unclassified
50	50	Tokyo Cement*	Manufacturing and construction	31.85	▼	Unclassified
51	43	MBSL*	Banking, finance and insurance	31.65	▼	Unclassified
52	47	Airport & Aviation Services*	Hotels and travel	29.95	▼	Unclassified
53	53	United Motors*	Motor and logistics	28.35	▼	Unclassified
54	48	People's Bank*	Banking, finance and insurance	28.10	▼	Unclassified
55	48	State Mortgage & Investment Bank*	Banking, finance and insurance	27.35	▼	Unclassified
56	56	Lanka IOC	Petroleum, lubricants, chemicals and pharmaceuticals	25.70	▼	Unclassified
57	59	Central Finance*	Banking, finance and insurance	24.75	▲	Unclassified
58	57	ACL Cables*	Manufacturing and construction	24.25	▼	Unclassified
59	58	Ceylinco Insurance*	Banking, finance and insurance	23.00	▼	Unclassified
60	43	Nations Trust Bank*	Banking, finance and insurance	22.85	▼	Unclassified
61	62	State Pharmaceuticals Corporation*	Petroleum, lubricants, chemicals and pharmaceuticals	21.35	▲	Unclassified
62	-	Royal Ceramics*	Manufacturing and construction	18.85	-	Unclassified
63	66	Distilleries*	Alcohol and tobacco	16.35	▲	Unclassified
64	63	C. W. Mackie*	Diversified holdings	13.60	▼	Unclassified
65	64	Lanka Ceramic*	Manufacturing and construction	13.35	▼	Unclassified
66	65	Ceylon Brewery*	Alcohol and tobacco	5.25	▼	Unclassified

* These companies did not respond to STING Consultants' questionnaire and have thus been rated purely on the basis of information that is available to the public.

REPORT CARD ON CORPORATE ACCOUNTABILITY

CHANGING GEARS

BEST IN CLASS
POLICY COVERAGE

Aitken Spence emerges as best in class in terms of Policy Coverage in our 2011 Corporate Accountability Assessment. In the year under review, the conglomerate incorporated its existing sustainability principles and practices into an integrated sustainability policy framework.

Through a structured and formalised policy document, this framework provides guidance to decision makers within the group, in terms of integrating the relevant sustainability principles into corporate policy and strategy.

The Integrated Sustainability Policy – implemented under the overall direction of the Board of Management and Board of Directors – takes a holistic view on corporate responsibility and includes a wide range of aspects that need to be addressed: they include compliance, ethical conduct, the environment, community outreach, sustainable processes, governance, stakeholder engagement, quality, customer service, talent management, innovation, health and safety, human rights, information security, continuous improvement and credible reporting. The broad policy document is available to the public through Aitken Spence's website.

An internally circulated version of this Integrated Sustainability Policy is supplemented by clauses, sub-clauses and corresponding action points under each aspect mentioned above – collectively, they provide companies in the group with guidance for gradual implementation through a tier-based system.

Aitken Spence says that this policy will be a dynamic statement, which will be reviewed and updated in line with changing realities on the ground. It adds that awareness and training programmes will be conducted where necessary, to facilitate its implementation.

Dr. Rohan Fernando – Director and Head of Business Development and Plantations of Aitken Spence – notes: "Our Integrated Sustainability Policy, which was developed in-house, takes a holistic view on corporate sustainability. It acknowledges that the sustainability of an organisation depends on myriad factors. The policy and the accompanying implementation framework have been developed in line with global best practices, which will enable our diverse portfolio of businesses to gain a competitive advantage by continuing to do 'good business'."

MEDIA SERVICES PHOTOFILE (AITKEN SPENCE HOTEL MANAGEMENTS)

The impact of business on the environment and society continue to be at the top of the global agenda. Inter-governmental organisations are hosting highly publicised conferences and summits, whilst establishing numerous working groups aimed at tackling the various complex topics, not least of which is climate change.

Individual governments are establishing new social and environmental laws and standards that businesses must adhere to if they should want to continue operations. NGOs are ever-present, as they pursue their crusade against corporate offenders, resulting in embarrassing reputational consequences at best – or devastating financial losses, as it has turned out in many cases.

In the light of these factors, the need for corporate Sri Lanka to adapt and keep abreast of global developments hasn't changed. The annual STING Corporate Accountability Index continues to analyse the readiness of local corporates and their ability to establish the competitiveness of the Sri Lankan business model vis-à-vis the emerging sustainability-focused global equivalent.

Accountability calls for an internal structure that encompasses all aspects of a business, in order to manage its impact in the social, environmental and economic spheres. It requires transparency, so that stakeholders can effectively hold the business to account for its actions. Above all, the leadership of a business is the driving force to establish this new order, so that it permeates to all levels and facets of operations. All this must be in place, if corporate Sri Lanka is to improve its standing on the global business platform. As Sri Lankan businesses are integrated into the global network, this will become an absolute necessity.

CURRENT STANDING This year's unique Corporate Accountability Index brings to the fore some encouraging signs of improvement amongst the largest companies in Sri Lanka. The number of companies providing voluntary responses to our call for information increased to 24, up from 21 last year.

This is a reflection of an increasing interest in corporate accountability amongst Sri Lankan businesses, and the growing awareness of the importance of incorporating accountability into everyday business. This is also inferred by the fact that 57 of the 66 companies appearing in the 2011 index mention sustainability or corporate responsibility to some extent in their public disclosures.

An analysis of the range of scores of the companies appearing in the rankings corroborates this point. Last year's index had 30 corporates above the minimum score

STING Consultants' **Tiara Anthonisz** and **Ruchi Gunewardene** observe that Sri Lanka Inc. is making some progress in its quest to take on the global challenges that are ahead, albeit at a snail's pace.

required for classification as Bronze, Silver, Gold or Platinum. This number has risen to 38 scoring above this level – a clear sign of improvement. And half the companies listed in the index this year also increased their absolute scores.

However, the average score of Sri Lanka's largest corporates remains at a disappointing level of just above 46. Whilst this represents a marginal increase from the 2010 average, there is no change to the Bronze classification achieved by Sri Lanka Inc. last year – evidence that though there's been some improvement, it isn't satisfactory.

Indeed, only 27 per cent of the companies assessed have board or senior-management level committees to drive their corporate-accountability aspirations. As the highest decision-making body of a company *must* buy into the idea of corporate responsibility – if there is to be significant change in the manner in which it operates and performs – this low proportion is a telling sign that much more needs to be done for the overall corporate responsibility standing of Sri Lankan businesses as a whole to improve.

SECTORAL VIEW The sector analyses produce largely similar outcomes as those of last year, with ICT and telecommunications; motor and logistics; hotels and travel; diversified holdings; and apparel, footwear and textiles performing above average.

Though the average of the banks, finance and insurance sector continues to be below average, progress has been made by a number of banks vis-à-vis their individual performance. The banking sector, on its own, therefore reflects considerable improvement in its corporate-accountability performance this year. Eight entities in our rankings achieved a greater than 20 per cent improvement in their scores, in comparison to those listed on the 2010 index. Five amongst them are banks; and notably, three of these are state-owned. This is one of the encouraging outcomes of our study, as the banks – as providers of capital – are inherently a catalyst for inspiring other businesses to improve.

Indeed, a small number of banks in the rankings have now implemented structured environmental and social-management systems or policies, which are incorporated into their credit policies.

Others monitor the sustainability impacts created by the activities of their borrowers, and yet more of them offer tailored loans and products to businesses seeking to invest in environmentally-friendly technologies. The remaining financial-services institutions will clearly have to adopt similar practices if they are to remain competitive – and to ensure that their reputations are intact.

MEDIA SERVICES PHOTOFILE (THUSITH WIJEDORU)

> "Top performers in terms of public disclosure, including Dialog Axiata, boast detailed and structured sustainability reports based on the GRI guidelines...

ABOVE-AVERAGE SECTORS		
1	ICT and telecommunications	59.65
2	Motor and logistics	54.66
3	Hotels and travel	54.38
4	Food and beverage	52.41
5	Diversified holdings	51.79
6	Apparel, footwear and textiles	50.40

BELOW-AVERAGE SECTORS		
1	Banking, finance and insurance	45.22
2	Consumer durables	41.50
3	Alcohol and tobacco	32.10
4	Manufacturing and construction	37.00
5	Petroleum, lubricants, chemicals and pharmaceuticals	29.40

ICT AND TELECOMMUNICATIONS

Rank	Company	Score	Classification
1	Dialog Axiata	81.15	Platinum
2	Sri Lanka Telecom	38.10	Unclassified
	AVERAGE	**59.65**	

MOTOR AND LOGISTICS

Rank	Company	Score	Classification
1	DIMO	75.35	Platinum
2	Hayleys Advantis	60.25	Gold
3	United Motors	28.35	Unclassified
	AVERAGE	**54.66**	

HOTELS AND TRAVEL

Rank	Company	Score	Classification
1	Aitken Spence Hotels	72.10	Gold
2	Asian Hotels	67.85	Gold
3	John Keells Hotels	64.90	Gold
4	SriLankan Airlines	37.10	Unclassified
5	Airport & Aviation Services	29.95	Unclassified
	AVERAGE	**54.38**	

FOOD AND BEVERAGE

Rank	Company	Score	Classification
1	Cargills	78.95	Platinum
2	Coca-Cola Beverages	68.85	Gold
3	Ceylon Cold Stores	60.90	Gold
4	Finlays Tea Estates	51.85	Silver
5	Nestlé Lanka	39.85	Unclassified
6	Ceylon Grain Elevators	33.60	Unclassified
7	Ceylon Tea Services	32.85	Unclassified
	AVERAGE	**52.41**	

DIVERSIFIED HOLDINGS

Rank	Company	Score	Classification
1	Aitken Spence	80.05	Platinum
2	John Keells Holdings	75.90	Platinum
3	CIC	66.40	Gold
4	Hayleys	62.30	Gold
5	Finlays	55.30	Silver
6	Richard Pieris	49.85	Bronze
7	Hemas Holdings	46.30	Bronze
8	Sunshine Holdings	35.35	Unclassified
9	Browns	32.85	Unclassified
10	C. W. Mackie	13.60	Unclassified
	AVERAGE	**51.79**	

REPORT CARD ON CORPORATE ACCOUNTABILITY

CHANGING GEARS

BEST IN CLASS
MANAGEMENT AND GOVERNANCE

John Keells Holdings (JKH) emerged as best in class in the category of Management and Governance in the 2011 Corporate Accountability Index. The management processes and systems of a large number of the group's subsidiaries are certified to globally established standards.

These go beyond the ISO 9001 standard for quality management, to include certified systems for environmental management in line with ISO 14001, which a number of the group's resort properties and other divisions of the group lay claim to. Some of the hotels within the group also boast Green Globe accreditation, as well as OHSAS 18001 certification for health and safety-management systems. Furthermore, a large number of divisions in food products attest to safety through ISO 22000.

JKH is also committed to externally developed sustainability initiatives. It is a signatory to the UN Global Compact, and it has integrated the principles of the Global Reporting Initiative into its sustainability-monitoring systems.

The group's Corporate Governance framework and systems meet the requirements of the Code of Best Practice on Corporate Governance issued by ICASL in 2008 and the listing rules of the CSE.

In addition, the responsibility for corporate-sustainability performance has been integrated into the core governance structure of the group under the auspices of a Group Sustainability Committee, which ensures that sustainability issues are taken into consideration when business decisions are made. JKH is accountable to its stakeholders through formal open-communication policies and a whistle-blowing mechanism, whereby employees can voice their concerns by direct email to the Chairman of the Board of Directors.

Suresh Rajendra, a group President, notes: "The integrated Corporate Governance framework has allowed JKH to not only build leading sustainable businesses and create greater value for its stakeholders year after year, but to also uphold the highest standards of business integrity and professional ethics."

MEDIA SERVICES PHOTOFILE (JOHN KEELLS)

Companies in general – and in particular those in manufacturing and extractives, who continue to perform below average as a group – will also have to take into account their environmental and social impacts, if they hope to access quality finance in the future. We commend the banks in our listing for taking the initiative to foster this necessary change.

The alcohol and tobacco sector performance is solely driven by Ceylon Tobacco, which continues to perform far above average, driven by its product-related need to incorporate stringent accountability systems, so that it maintains a license to operate.

And the alcohol businesses appearing in the index perform at a very low level in comparison, strangely misaligned with global trends, where sectors with the most negative public perceptions are leaders in the sustainability agenda.

However, Distilleries has taken some steps in the right direction since the publication of the 2010 STING Corporate Accountability Index, by attempting to reduce some of the negative impacts created by its manufacturing processes. This is reflected in a higher score this year.

But there's much work to be done by businesses representing this sector, if they are to maintain their respective intrinsic licenses to operate, as more consumers and other stakeholders begin to view corporates and their activities through a virtual microscope.

The hotels and travel sector remains above average in this year's analysis. This bears testimony to the fact that sustainability is an important factor in the tourism industry, as more and more hoteliers take steps to differentiate their operations as being environmentally and socially friendly through various tourism-related green seals, standards or certifications.

It will not be long before this is the norm, rather than the exception. Soon, all hotel operations will be required to conform, if they are to cater to the ever-growing movement of environmentally-savvy travellers.

CORPORATE INSPIRATION In this year's analysis, we showcase the companies (and their practices) that are 'best in class' in Sri Lanka's corporate community. They are inspirational stories that other corporates should strive to emulate.

DIMO is amongst the companies scoring the most for corporate values. It has integrated principles of sustainability and responsibility in its high-level value statements – and they are communicated clearly to stakeholders through annual reports, the corporate website and other forms of collateral. A rare and distinguishing characteristic is that its

> “Above all, the leadership of a business is the driving force to establish this new order, so that it permeates to all levels and facets of operations.”

leadership has signed off on its values statement, providing credibility to the fact that the sustainability agenda is driven from the top, as opposed to being handed over to a PR or marketing team.

High performers in terms of stakeholder engagement have structured processes for dialogue, enabling extensive interaction between these companies and their stakeholders. In such organisations, stakeholders are given an opportunity to air their views. And best-in-class companies incorporate these views into their decision-making processes, thereby ensuring that the issues highlighted by stakeholders are addressed.

But few companies have structured and integrated processes to monitor and manage their sustainability-related risks and opportunities. Aitken Spence is amongst the corporates that do this well. Such companies have implemented stringent procedures across their business functions, so that nothing is left to chance. They incorporate internal-rating processes to prioritise these risks, thus addressing them in a manner that makes the most efficient use of internal resources.

Top performers in terms of public disclosure, including Dialog Axiata, boast detailed and structured sustainability reports based on the GRI guidelines and the accountability series where stakeholder views determine the content of reports. These reports portray a balanced view of companies' sustainability performance across economic, environmental and social arenas. And their credibility is affirmed through high quality-assurance processes undertaken by specialists in sustainability-assurance practices.

FUTURE CHALLENGES Sri Lanka Inc. has clearly made progress in preparing itself for the oncoming global challenges. A handful of businesses are already well-versed in the requirements of effective corporate accountability, whilst others are gradually finding their feet. However, not enough progress is being made. And the process is taking far too long.

It is imperative that more companies recognise the importance of addressing their negative business impacts on the economy, and on society and the environment. They must engage in constant dialogue with their stakeholders, if they are to insulate themselves from corporate catastrophes. And they must measure their sustainability performance, to reduce costs and improve profitability.

What's more, they must do this with absolute transparency, if they wish to retain their legitimacy. For corporates that are aspiring to go global, enhancing accountability practices and capabilities are priorities. And the time to make the necessary adjustments is *now*.

MEDIA SERVICES PHOTOFILE (NILANTHA ANURUDDHA)

> “DIMO is amongst the companies scoring the most for corporate values. It has integrated principles of sustainability and responsibility in its high-level values statements…

APPAREL, FOOTWEAR AND TEXTILES

Rank	Company	Score	Classification
1	Brandix Lanka	69.75	Gold
2	Hayleys MGT	43.50	Bronze
3	Kuruwita Textiles	32.25	Unclassified
	AVERAGE	**50.40**	

BANKING, FINANCE AND INSURANCE

Rank	Company	Score	Classification
1	HNB	75.55	Platinum
2	People's Leasing Company	61.65	Gold
3	NDB bank	60.45	Gold
4	Commercial Bank	60.25	Gold
5	Union Assurance	59.55	Silver
6	Sampath Bank	53.10	Silver
7	Bank Of Ceylon	50.85	Silver
8	NSB	50.45	Silver
9	LOLC	50.20	Silver
10	Aviva NDB Insurance	50.05	Silver
11	HDFC Bank	44.90	Bronze
12	DFCC Bank	43.85	Bronze
13	Seylan Bank	43.20	Bronze
14	Janashakthi Insurance	42.65	Bronze
15	MBSL	31.65	Unclassified
16	People's Bank	28.10	Unclassified
17	State Mortgage & Investment Bank	27.35	Unclassified
18	Central Finance	24.75	Unclassified
19	Ceylinco Insurance	23.00	Unclassified
20	Nations Trust Bank	22.85	Unclassified
	AVERAGE	**45.22**	

CONSUMER DURABLES

Rank	Company	Score	Classification
1	Singer	41.50	Bronze
	AVERAGE	**41.50**	

ALCOHOL AND TOBACCO

Rank	Company	Score	Classification
1	Ceylon Tobacco Company	74.70	Gold
2	Distilleries	16.35	Unclassified
3	Ceylon Brewery	5.25	Unclassified
	AVERAGE	**32.10**	

MANUFACTURING AND CONSTRUCTION

Rank	Company	Score	Classification
1	Maga Engineering	78.55	Platinum
2	Printcare	55.40	Silver
3	Colombo Dockyard	37.65	Unclassified
4	Dipped Products	36.60	Unclassified
5	Haycarb	36.45	Unclassified
6	Tokyo Cement	31.85	Unclassified
7	ACL Cables	24.25	Unclassified
8	Royal Ceramics	18.85	Unclassified
9	Lanka Ceramic	13.35	Unclassified
	AVERAGE	**37.00**	

PETROLEUM, LUBRICANTS, CHEMICALS AND PHARMACEUTICALS

Rank	Company	Score	Classification
1	Chevron Lubricants	41.15	Bronze
2	Lanka IOC	25.70	Unclassified
3	State Pharmaceuticals Corporation	21.35	Unclassified
	AVERAGE	**29.40**	

THE FUTURE OF SUSTAINABILITY REPORTING

GOING THE DISTANCE

Sustainability reporting is the practice of companies measuring, disclosing, and making themselves accountable to stakeholders for their economic, environmental and social performance. Though broadly synonymous with other terms, including both CSR and social reporting, the term 'sustainability reporting' is preferred. It essentially incorporates all aspects that contribute towards the sustainability of an organisation; and as a result, to the sustainable development of a nation.

These aspects cover a company's economic performance, as well as its environmental, social and corporate-governance track record.

Whilst disclosure of the financial aspects of corporate performance has become largely standardised globally, providing information on other aspects of sustainability – colloquially known as 'ESG disclosure' – continues to vary in sophistication across different countries.

Various international organisations pushing the sustainability agenda have developed standards or frameworks for sustainability reporting. Amongst these, the guidelines established by the Global Reporting Initiative (GRI) have now become the de facto standard for reporting.

The GRI reporting framework establishes the principles and indicators that corporates can use to measure and report their economic, environmental and social performance. The third version of these guidelines (G3 Guidelines) was published in 2006 – it is freely available online, along with sector specific guidance notes and documents that have been developed by GRI.

LOCAL SNAPSHOT Corporates in Sri Lanka clearly recognise that sustainability is an important factor in business. Eighty-six per cent of companies gracing the 2011 Corporate Accountability Index have at least some mention of sustainability or CSR issues in their public disclosure.

However, only 30 per cent (that's 20 companies, out of the 66 included in the index) produce structured reports in line with the GRI Guidelines.

Though this level is relatively low, it is an improvement on last year – at that time, only 15 companies were following a structured framework for reporting purposes. It is clear, therefore, that local corporates are increasingly recognising the benefits and importance of systematically measuring and disclosing their sustainability performance to stakeholders.

In order to foster further transparency, GRI requires that companies declare the level at which they are adopting the guidelines. Fifteen of the reporting companies in Sri Lanka satisfy this requirement, by declaring their reporting levels. However, 10 of them are self-declarations – and it goes without saying that this is less credible, as third parties haven't confirmed that the reported level is accurate.

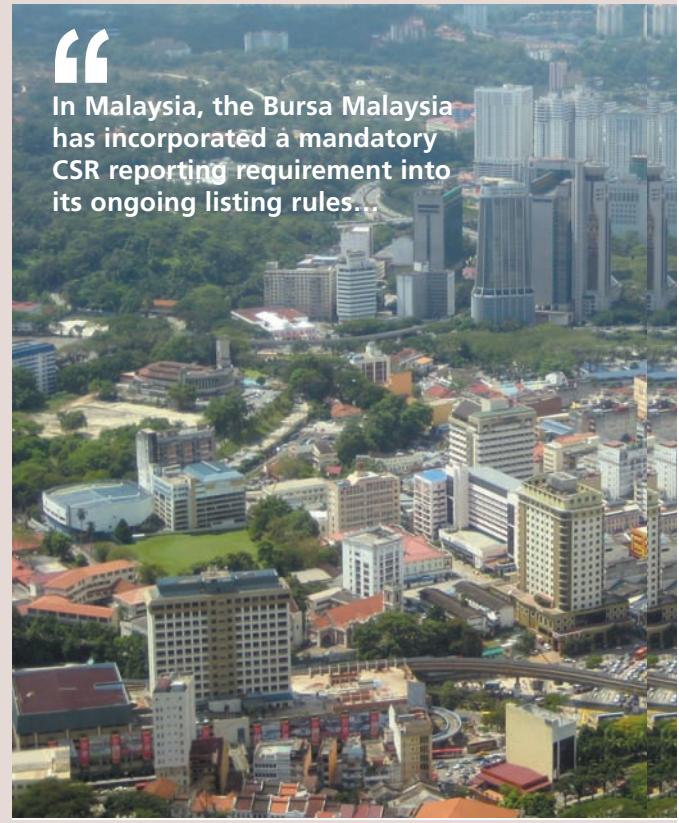
To establish credibility of information included in reports, global corporations are increasingly seeking external verification or assurance of their reports. This is similar to the audit statements that cover financial reports.

Eight of the 20 reporting companies in this country incorporate external assurance statements in their reports. However, only four such statements provide solid confirmation that the reports accurately represent the companies' internal sustainability performance.

So in general terms, local companies must now take greater steps to make themselves more transparent and accountable to their stakeholders.

The number of reporting companies must increase significantly too. In addition, the quality and credibility of reports must improve.

It is essential that local companies take these steps, if they are to remain competitive vis-à-vis their global counterparts who are increasingly following the exponentially growing trend of monitoring, measuring and disclosing their sustainability impacts.



GLOBAL SNAPSHOT The magnitude of this trend of releasing structured sustainability reports into the public domain becomes clear when one considers the progress that has been made on a global scale.

GRI released its first sustainability-reporting guidelines in 2000, which resulted in 50 corporations adopting the guidelines in the same year. Five years later, the number of reporting companies had increased to 750: and five years on from there, the number has reached a staggering 1,270 (on the basis of accounting only for reports that GRI is aware of).

Indeed, the actual number is likely to be very much higher, when one considers the companies that have not made themselves known to GRI – including 85 per cent of reporting companies in Sri Lanka.

GLOBAL DRIVERS Stock exchanges around the world have become an important driver, contributing to

Tiara Anthonisz tackles sustainability reporting head on and warns that to 'wait and see' will mean being left behind in the race for global business.

the vast number of sustainability reports being produced by public companies. Listing rules include reporting requirements, mainly for financial information, with an increasing number of exchanges now also requiring governance information.

A few countries have gone further, by demanding transparency by means of including environmental and social-disclosure requirements into their listing rules. Strangely, though commendably, this development has arisen mostly in emerging markets.

In Malaysia, the Bursa Malaysia has incorporated a mandatory CSR reporting requirement into its ongoing listing rules. Similarly, in South Africa, the King Code of Governance (King III), which requires that companies integrate their management of financial and non-financial aspects, and produce integrated reports accompanied by external assurance (in place of standalone annual reports and sustainability reports) has been made a prerequisite for companies listed on the Johannesburg Stock Exchange. All listed companies are therefore required to produce an integrated report, or explain why they have not done so, for all year-end reports that commence on or after 1 March 2010.

MEDIA SERVICES PHOTOFILE

Other emerging markets have taken smaller steps in demanding greater transparency by requiring partial disclosure across the ESG spectrum. Though limited, these developments are still vital steps in the sustainability agenda, and they have contributed to the rise in the quantity and quality of public disclosure. For instance, the Shanghai and Shenzen Stock Exchanges have introduced environmental requirements for companies within the 14 most energy-intensive industries in China as a listing requirement prior to initiating an IPO.

The increased attention being paid by stock exchanges to aspects of sustainability reflects the shift in the views and priorities of major financial institutions and asset managers. There is no question that the global investor community has been another driver of the rapid increase in sustainability disclosure through, amongst other means, the UN-backed Principles for Responsible Investment (PRI).

The PRI consists of a set of voluntary best-practice principles that assist investors in integrating environmental, social and corporate-governance aspects into their investment decisions and processes. The initiative is based on the view that ESG factors can significantly affect the financial performance of investment portfolios and must therefore be taken into consideration by investors.

Signatories to the PRI recognise that as institutional investors, they have a fiduciary duty to act in the best long-term interest of their beneficiaries – and this, in turn, requires considering ESG factors in their investment decisions.

Whilst striving to achieve this fundamental principle, signatories also commit themselves to achieving yet another crucial principle of the initiative, which is to seek appropriate public disclosure on ESG issues by the companies in which they invest. The emphasis is placed on standardised reports that follow structured frameworks, including that of the GRI.

The network of international investors that is committed to these principles has increased to 851 members today. They comprise asset owners, investment managers and professional-service partners, including stock exchanges. The UK and US alone account for 234 of these signatories; whilst closer to home, India and Pakistan together claim five signatories. A high level of commitment to this initiative comes from the East Asian region, which is home to 55 signatories.

Other stakeholders too are critical drivers of the reporting trend. Global banks and lending institutions are now incorporating environmental and social considerations into their lending decisions, a factor that is mirrored here, in Sri Lanka. Companies must therefore monitor their internal-sustainability performance and communicate these results through the right channels if they hope to access finance.

Consumers and prospective employees are becoming more and more interested in the non-financial performance of companies. So they often base their purchasing or job-hunting decisions on the reputation of an organisation, in terms of its ethics and responsibility practices.

FUTURE OF REPORTING As key stakeholders have now recognised the role the non-financial aspects of a company's performance plays on its financial viability, the future of sustainability disclosure lies in Integrated Reporting.

Integrated Reporting builds on the practices of financial and ESG reporting, by integrating these areas of disclosure in a manner that provides long and short-term

THE FUTURE OF SUSTAINABILITY REPORTING

GOING THE DISTANCE

investors, as well as other stakeholders, with the necessary information to assess a company's overall performance.

It goes beyond simply including sustainability disclosure into annual reports. Rather, Integrated Reporting links the non-financial performance of a company with its financial status, by making clear how its sustainability performance impacts the future viability of the business. It provides corporates with the tools to understand the relationship between its financial and non-financial performance, allowing them to make the right decisions in establishing sustainable business strategies.

Stakeholders too will be able to better interpret the numbers presented by a company, enabling them to make more informed decisions about its future performance.

ESG aspects of the Integrated Reporting framework will be shaped by the GRI Guidelines. In fact, GRI has already commenced work on a revised version of the guidelines (GRI G4 Guidelines), which is due to be released next year. This will be a stepping stone for companies preparing integrated reports.

Though there is no clear timeline as to when the Integrated Reporting framework would come into effect, some global corporations have already begun integrating their reports on this basis.

OPPORTUNITY KNOCKS It is clear, therefore, that Sri Lankan companies must follow this trend… or risk being left behind. But the majority of local companies have a long way to go, if they are to keep abreast of the rapid changes taking place in the global disclosure movement.

> "The Shanghai and Shenzen Stock Exchanges have introduced environmental requirements for companies within the 14 most energy-intensive industries in China as a listing requirement prior to initiating an IPO…

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Integrated Reporting will require collaboration across all functions of a business, and it will be essential that non-financial measurement systems and internal controls are developed to the same standard as financial systems.

REPORTING COMMITTEE In meeting the need for a comprehensive and comparable Integrated Reporting framework, the Prince of Wales' Accounting for Sustainability Project and GRI have established an International Integrated Reporting Committee (IIRC).

The IIRC's aim is to create a globally accepted framework that brings financial, environmental, social and governance information together, providing stakeholders with information on a company's overall performance. This would meet the information requirements of the emerging, and more sustainable, global economic model.

The objectives of the IIRC are to make clear the link between sustainability and economic value, and to rebalance performance metrics away from placing undue emphasis on short-term financial performance.

Indeed, some will have to first take a step back and improve their own internal processes and systems, before they follow in the footsteps of the masses vis-à-vis attempting to develop credible sustainability reports.

Credible reports, particularly those that are integrated with financial performance, will require that companies clearly understand precisely how sustainability fits into their overall business strategies.

There will also need to be improvements made in local as well as global assurance and verification markets, as integrated reports become the norm and external auditors are obliged to verify both financial and non-financial corporate performance.

Companies cannot afford to wait until sustainability-disclosure requirements become mandatory. They must adopt relevant systems and processes now, if we are to truly work towards sustainable development of our country.

Early adopters have the ability to set the standard for others to follow. This is where opportunity lies.