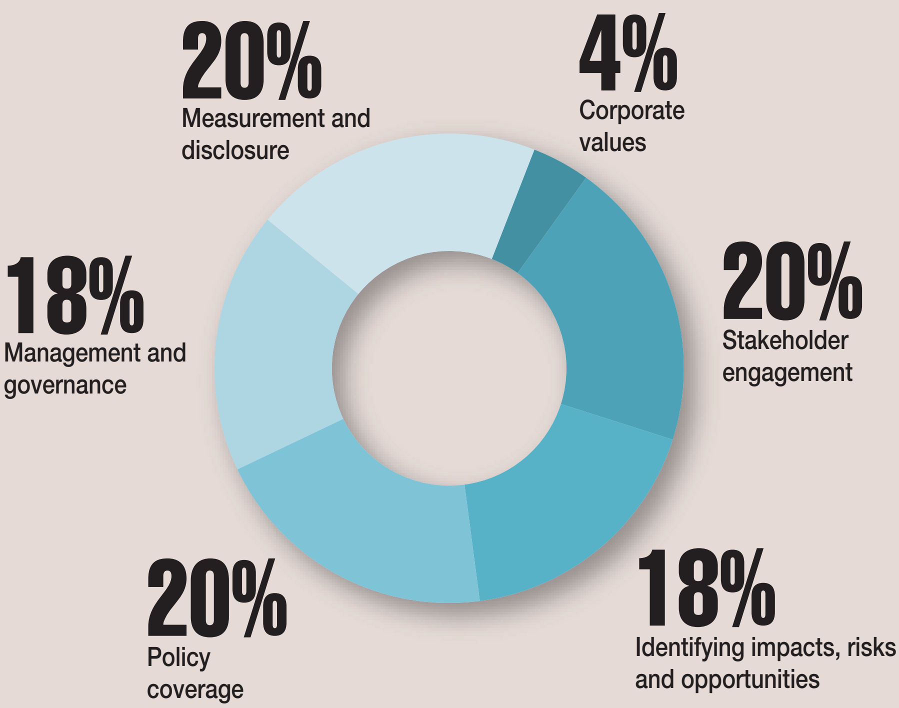
STING CORPORATE ACCOUNTABILITY INDEX

METHODOLOGY

STING Consultants explains the basis on which it assesses the level of corporate accountability in Sri Lanka biennially

KEY ATTRIBUTES OF CORPORATE ACCOUNTABILITY



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STING Consultants reached out to the largest listed companies, private entities and State Owned Enterprises (SOEs) operating in Sri Lanka, with an invitation to participate in this exercise by voluntarily submitting information and supporting evidence of their corporate accountability practices and performance.

The top 50 companies in the LMD 100 and 10 key SOEs were rated, regardless of whether they submitted information, given that they are the largest entities in the country and therefore have the greatest potential impact.

Seventeen listed entities responded to STING Consultants' questionnaire, along with one SOE and three privately owned companies, bringing the total number of voluntary responses to 21 this year. The remaining companies and SOEs were rated on the basis of publicly available information – i.e. annual reports, sustainability reports and corporate websites.

Companies continue to be categorised into broad bands based on the scores achieved (Platinum 75-100, Gold 60-74.9, Silver 50-59.9, Bronze 40-49.9). This indicates their levels of advancement in terms of adopting responsible business practice, while allowing for benchmarking. The minimum score for classification remains 40, so entities scoring below this level aren't classified.

Entities are assessed against the STING Corporate Accountability Model – a proprietary model that has been developed to reflect a holistic and integrated approach to corporate responsibility, sustainability and governance. This model is based on a set of qualitative aspects which are assessed and measured, and then converted into a quantitative score.

The model has been updated this year, together with shifting from an annual to a biennial rating, with more emphasis given to the extent to which these aspects are operationalised within the entities; in particular, by identifying to what extent employees are trained and made aware of the companies' values, codes of conduct and other policies.

As in previous years, an entity's product portfolio is taken into account in the assessment.

As a result, companies that produce and sell products which may have negative health implications (for example, alcohol and tobacco) face a penalty which is taken

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off their total scores. The results presented in the index reflect these companies' performance after accounting for this penalty.

Companies are assessed across six key areas which constitute the necessary components for holistic and integrated corporate accountability. Each area consists of a range of criteria that is required for operating through an integrated framework of responsibility. The six key areas are weighted according to their relative importance in facilitating corporate accountability (see accompanying chart), and they are summarised as follows.

Corporate values determine whether an entity has made an effort to establish a set of high-level values or principles that define the role it wants to play in society, by incorporating aspects of accountability and responsibility in its corporate statements (vision, mission, values and so on).

Stakeholder engagement assesses whether an entity is aware of who its key stakeholders are, the extent to which it engages with them as well as whether it provides reasonable responses to the key issues, concerns or grievances raised by stakeholders.

Identifying impacts, risks and opportunities measures the extent to which an entity is aware of the main impacts on economic, social and environmental sustainability resulting from its operations, and whether it can identify and respond to credible risks and opportunities arising from such impacts.

Policy coverage assesses the extent to which an entity has policies in place with regard to managing environmental aspects, labour practices, human rights, societal concerns – and the extent to which employees are made aware of these policies through training.

Management and governance consider whether globally recognised management systems are in place with respect to the environment, health and safety, quality and workplace practices.

In addition, this section assesses the nature of corporate governance, and the extent to which accountability and responsibility are integrated into the core governance processes of an entity.

Measurement and disclosure assesses the extent to which an entity measures its performance against key sustainability-related indicators. This section also assesses whether it publishes a sustainability report that addresses its environmental, social and economic performance and impacts, in addition to the quality, comparability and credibility of information contained in such reports.

ABOUT STING CONSULTANTS

www.stingconsultants.com

Established in 2002, STING Consultants is Sri Lanka's only exclusive strategic marketing and brand consulting company. The firm has worked on over 130 projects during its 13 years in business. Its services include all aspects of strategic marketing, branding and brand valuation (through its affiliation with Brand Finance), and they are tailored to fit the specific needs of clients.

In 2008, STING Consultants set up a strategic Corporate Responsibility (CR) division to assist in setting up overall systems of corporate accountability, responsibility and sustainability in client companies. A planned approach to this discipline is key to building corporate reputation, and is intrinsically linked to business sustainability.

STING Consultants' strategic corporate responsibility services include the following.

- ❏ Company performance assessments based on the available data used to publish the STING Corporate Accountability Index. This includes benchmarking against peers, and providing recommendations for improving accountability and sustainability practices.
- ❏ In-depth audits of companies, to analyse the extent to which strategic CR is integrated into their operations. This is done through an assessment against the corporate accountability model and assessments to understand the effectiveness of strategic CR implemented within the organisation.
- ❏ Setting up structured stakeholder engagement systems within companies, including prioritising stakeholders, analysing issues, developing engagement tools, reaching out to stakeholders, analysing findings and providing recommendations to companies on how they should manage their stakeholder relationships.
- ❏ Providing assistance to companies on sustainability reporting vis-à-vis the Global Reporting Initiative (GRI) Guidelines, by implementing a systematic approach to identifying material issues and monitoring performance accordingly. This will also ensure that published reports meet the requirements of the GRI Guidelines.
- ❏ Awareness and education for client companies' management teams on strategic corporate responsibility and sustainability, so that they fully understand the background of this area of business, its importance and the way forward.

STING Consultants is also the accredited third party auditor for Green Globe Certification in Sri Lanka and the Maldives. It is responsible for verifying the sustainability performance of tourism businesses through onsite audits, in order for certification to be awarded.

STING Consultants can be contacted via e-mail (ruchi@stingconsultants.com and tiara@stingconsultants.com)

THE STING CORPORATE

RANK 2014	RANK 2012	COMPANY	SECTOR	SCORE 2014	SCORE 2012	CHANGE	CLASSIFICATION
1	1	Dialog Axiata	ICT and telecommunications	84.85	82.45	▲	Platinum
2	4	John Keells Holdings	Diversified holdings	84.20	79.20	▲	Platinum
3	2	Aitken Spence	Diversified holdings	83.00	82.05	▲	Platinum
4	3	Maga Engineering	Manufacturing and construction	78.10	81.50	▼	Platinum
5	7	Diesel & Motor Engineering*	Motor and logistics	76.00	75.55	▲	Platinum

6	9	Access Engineering	Manufacturing and construction	72.50	70.10	▲	Gold
7	10	Printcare	Manufacturing and construction	72.25	69.40	▲	Gold
8	13	Asian Hotels & Properties	Hotels and travel	70.45	67.00	▲	Gold
9	5	Cargills (Ceylon)	Food and beverage	70.40	76.00	▼	Gold
10	16	Hayleys*	Diversified holdings	68.50	64.55	▲	Gold
11	15	John Keells Hotels	Hotels and travel	67.20	65.15	▲	Gold
12	–	Brandix Lanka	Manufacturing and construction	65.65	–	–	Gold
13	6	Hatton National Bank*	Banking, finance and insurance	65.50	75.80	▼	Gold
14	30	Hemas Holdings	Diversified holdings	64.30	50.70	▲	Gold
15	17	People's Leasing & Finance	Banking, finance and insurance	63.55	62.90	▲	Gold
16	11	CIC Holdings	Diversified holdings	63.40	67.35	▼	Gold
17	8	Aitken Spence Hotels	Hotels and travel	63.30	71.20	▼	Gold
18	12	Commercial Bank*	Banking, finance and insurance	62.75	67.15	▼	Gold
19	20	Seylan Bank	Banking, finance and insurance	60.70	60.95	▼	Gold

20	18	Coca-Cola Beverages Sri Lanka	Food and beverage	59.55	62.45	▼	Silver
21	23	HDFC Bank*	Banking, finance and insurance	59.30	59.40	▼	Silver
22	21	Union Assurance*	Banking, finance and insurance	55.80	60.50	▼	Silver
23	38	Janashakthi Insurance	Banking, finance and insurance	53.75	46.00	▲	Silver
24	22	Ceylon Cold Stores	Food and beverage	53.70	59.55	▼	Silver
25	26	Sampath Bank*	Banking, finance and insurance	53.10	54.85	▼	Silver
26	24	National Development Bank*	Banking, finance and insurance	52.85	58.65	▼	Silver
27	37	DFCC Bank*	Banking, finance and insurance	51.35	46.15	▲	Silver
28	40	Singer (Sri Lanka)*	Consumer durables	50.45	42.75	▲	Silver

ACCOUNTABILITY INDEX

RANK 2014	RANK 2012	COMPANY	SECTOR	SCORE 2014	SCORE 2012	CHANGE	CLASSIFICATION
29	35	Bank of Ceylon*	Banking, finance and insurance	49.90	46.85	▲	Bronze
30	32	Dipped Products*	Manufacturing and construction	49.00	49.85	▼	Bronze
31	–	HNB Assurance	Banking, finance and insurance	48.30	–	–	Bronze
32	39	Colombo Dockyard*	Manufacturing and construction	47.85	43.55	▲	Bronze
33	48	Airport and Aviation Services	Hotels and travel	45.85	32.45	▲	Bronze
34	–	Expolanka Holdings*	Diversified holdings	45.50	–	–	Bronze
35	–	LB Finance*	Banking, finance and insurance	41.75	–	–	Bronze
	55	Nations Trust Bank	Banking, finance and insurance	41.75	27.90	▲	Bronze
37	41	Chevron Lubricants Lanka*	Oil, gas and lubricants	41.55	40.00	▲	Bronze
38	36	National Savings Bank*	Banking, finance and insurance	40.80	46.30	▼	Bronze
39	31	Lanka Orix Leasing Company*	Diversified holdings	40.45	50.10	▼	Bronze
40	27	Ceylon Tobacco Company*	Alcohol and tobacco	40.05	52.90	▼	Bronze

41	29	Sunshine Holdings*	Diversified holdings	39.45	52.10	▼	Unclassified
42	–	Haycarb*	Manufacturing and construction	38.90	–	–	Unclassified
	33	Richard Pieris*	Diversified holdings	38.90	48.90	▼	Unclassified
44	43	Nestlé Lanka*	Food and beverage	38.85	38.00	▲	Unclassified
45	42	Sri Lanka Telecom*	ICT and telecommunications	38.35	38.95	▼	Unclassified
46	45	Lankem Ceylon*	Diversified holdings	37.00	36.15	▲	Unclassified
47	44	Tokyo Cement*	Manufacturing and construction	36.70	37.15	▼	Unclassified
48	49	Ceylon Grain Elevators*	Food and beverage	36.15	32.40	▲	Unclassified
49	52	Laugfs Holdings*	Oil, gas and lubricants	31.90	29.25	▲	Unclassified
	51	People's Bank*	Banking, finance and insurance	31.90	30.50	▲	Unclassified
51	47	ACL Cables*	Manufacturing and construction	31.65	32.65	▼	Unclassified
52	53	Ceylinco Insurance*	Banking, finance and insurance	30.50	28.15	▲	Unclassified
53	58	Browns Group*	Diversified holdings	29.50	25.50	▲	Unclassified
54	59	Distilleries Company of Sri Lanka*	Alcohol and tobacco	29.40	17.20	▲	Unclassified
55	53	Central Finance*	Banking, finance and insurance	27.65	28.15	▼	Unclassified
56	28	SriLankan Airlines*	Hotels and travel	27.55	52.65	▼	Unclassified
57	56	United Motors Lanka*	Motor and logistics	27.15	26.40	▲	Unclassified
58	–	Sri Lanka Insurance Corporation*	Banking, finance and insurance	26.10	–	–	Unclassified
59	46	Merchant Bank of Sri Lanka*	Banking, finance and insurance	25.40	33.00	▼	Unclassified
60	50	Lanka IOC*	Oil, gas and lubricants	24.60	32.00	▼	Unclassified
61	–	Softlogic Holdings*	Diversified holdings	24.50	–	–	Unclassified
62	57	State Mortgage & Investment Bank*	Banking, finance and insurance	19.00	26.35	▼	Unclassified
63	–	State Pharmaceuticals Corporation*	Manufacturing and construction	17.25	–	–	Unclassified
64	60	Lanka Ceramic*	Manufacturing and construction	16.65	16.15	▲	Unclassified
65	62	Lanka Ashok Leyland*	Motor and logistics	14.90	12.90	▲	Unclassified
66	61	C. W. Mackie*	Diversified holdings	13.90	13.65	▲	Unclassified
67	63	Ceylon Beverage Holdings*	Alcohol and tobacco	9.90	5.65	▲	Unclassified

* These companies didn't respond to STING Consultants' questionnaire and have therefore been rated on the basis of publicly available information

CORPORATE ACCOUNTABILITY SCORECARD

CORPORATE SHOWCASE

Tiara Anthonisz assesses the state of accountability in Sri Lanka and emphasises the need for a new approach to replace the old

> **There is also a clear sign of more consumers being interested in and concerned about responsibly produced goods and services (as can be seen from the popularity of the weekly Good Market), at least amongst the urban and more affluent consumers…**

Awareness of standards for the social and environmental fabric of the world we live in is increasing exponentially on a global scale. This includes awareness and opinions on environmental protection, climate change, human rights, workplace and consumer rights, health and safety, and ethics and governance, amongst others. Businesses are now made or broken on the basis of the standards they maintain in regard to such topics.

Profitability is no longer the key factor driving business success. Instead, social and environmental standards determine a company's ability to garner profits.

In the light of this, it is important to ascertain the status of Sri Lanka Inc. and its preparedness for facing challenges of doing business in the future, in a world which is increasingly more networked and has seen a shift of power from governments and corporates, to the people that make up society. It is this that the STING Corporate Accountability Index has aimed to measure over a period of five years, while gradually evolving in line with changing conditions of the outside world.

The STING Corporate Accountability Model and the published index are powerful tools that companies can use to understand the extent to which they have integrated the key aspects of undertaking business in an accountable, responsible and sustainable manner. This year, the results suggest that while progress is being made by business entities, the pace is very slow – much slower than the rate at which the world is changing; and at which stakeholders are changing their opinions and needs, and the standards they expect corporates to uphold.

STATE OF ACCOUNTABILITY The 2014 STING Corporate Accountability Index features 67 companies, including listed, private and state-owned entities. Forty companies achieved scores above the minimum cut off point for classification (40%), which implies that at least 27 companies of those who are featured have yet to fully realise the significance of sustainable business operations for long-term success.

Progress in implementing strategic responsibilities amongst many of the featured organisations has remained very slow since the initial Corporate Accountability Index was published in 2010. But time is running out, and no longer can companies mull over whether or not to take this perspective of doing business seriously – the core of which revolves around business impacts on key stakeholders and their changing requirements.

In the past year or so, there have been many examples globally – and more alarmingly, in Sri Lanka – of corporations that have in one way or another failed to consider critical aspects that are of importance to their stakeholders. This, in turn, has significantly affected their reputations, bottom lines and ability to continue operations in the long term.

It is a fact that the majority of Sri Lankan businesses still have a long way to go. There's a lot of work to be done before they can truly declare themselves to be responsible, sustainable and good corporate citizens. The average score of 47.18 achieved by companies in the Corporate Accountability Index represents a drop from 49.4 in 2012 – and this is a worrying sign, given that busi-

MEDIA SERVICES PHOTOFILE (SARAH HARVEY)

nesses are now at a critical juncture, in terms of establishing their sustainability. With the natural progression of this topic, the Corporate Accountability Model is also constantly evolving and developing, seeking to assess more aspects of how businesses operate. This year's results, therefore, reflect companies' performance taking this evolution into consideration.

In particular, the model has been expanded to assess the extent to which companies are training their employees on sustainability, corporate values, codes of conduct and various policies. This area was deemed important to consider in the evaluation, as companies cannot hope to be sustainable if the people (their key asset) who make their wheels turn aren't brought on board and kept informed on how they should be operating, so that corporate objectives for sustainable performance are met.

Of the 67 entities featured this year, training in key areas were mentioned by the following number of companies: corporate values – 17; environmental policies – 22; workplace standards and practices – 21; human rights policies – 20; and social aspects, bribery and corruption and codes of ethics in particular – 26.

The apparently higher occurrence of training and awareness on fraud, bribery, and unlawful gifts and entertainment, as opposed to other critical aspects and policies, could perhaps be due to the fact that this is an area that has been somewhat established for a longer period of time – one that has clearer financial implications and is incorporated into codes of best practice on corporate governance, thereby compelling publicly listed companies to address it.

However, companies must realise that other aspects – in particular, environmental and human rights – are equally or possibly much more important for maintaining their stakeholder relationships, corporate reputations and profitability. So employees should be adequately trained on how to address these factors.

ROLE OF STAKEHOLDERS The relative neglect of most sustainability aspects by a large number of companies could be attributed to the fact that stakeholders haven't been as concerned about holding companies accountable for their non-financial performance record in the past, with the exception of international buyers, partners and investors.

However, a noticeable and significant trend since publishing the previous index is that this has clearly changed in Sri Lanka, with more stakeholders of corporations rallying together to demand higher social, environmental and economic standards from the entities that they are associated with. For instance, there is now more frequent community outrage over certain corporate activities, most notably pollution and negative health impacts.

There is also a clear sign of more consumers being interested in and concerned about responsibly produced goods and services (as can be seen from the popularity of the weekly Good Market), at least amongst the urban and more affluent consumers.

Going forward, other key stakeholders will also increasingly become more concerned with corporate activities and their non-financial performance as it becomes clearer how

CORPORATE ACCOUNTABILITY SCORECARD

CORPORATE SHOWCASE

this aspect of business can impact stakeholders' interests.

A shift in investor mindsets will certainly be critical. And this is already happening, as more companies produce integrated reports (10 featured companies) which aim to combine and show the link between financial and non-financial performance, thereby making investors more aware of how sustainable business operations (or a lack thereof) will affect their investment portfolios in the long run.

Stakeholders require information on company activities and performance in order to hold them accountable for their actions. The 2014 Corporate Accountability Index finds that there is indeed a rise in corporate communications on sustainability, with 60 of the 67 firms ranked mentioning non-financial aspects in their annual reports to some extent, and 48 corporates including such information on their websites.

The quality of information provided is essential for stakeholders to be able to make informed decisions. Of the 60 companies that have done so, only 30 have structured sustainability reports that follow globally established guidelines. Of these, only 15 are externally assured to confirm the credibility and accuracy of reported information.

Despite there being an improvement in communications since 2012, this is still an insufficient number. This confirms that a large number of businesses still fail to realise the importance of embedding responsible business practices into their operations and being transparent by keeping stakeholders informed of their progress.

In fact, of the 48 companies which present information on their websites, 14 talk only about philanthropic community activities which cannot be considered a strategic corporate responsibility – but rather, they are a component of public relations.

MANAGING SUSTAINABILITY Despite the results being weaker than desired, it is encouraging to note that companies are, in fact, taking steps to improve. And more corporates are beginning to consider how their actions might impact the social, environmental and economic spheres in which they operate.

Albeit slowly, companies are also beginning to establish systems to manage such impacts. This is reflected in the rise of the number of CSR and sustainability committees in the companies featured in the 2014 index. Of the entities listed, 27 now have committees that are responsible for social and/or environmental aspects, compared to 13 featured in the 2012 index.

Though some of these committees have been set up simply to govern community involvement – an area that a large number of companies still confuse with true corporate responsibility, rather than the wider gamut of sustainability topics – it is an encouraging development nevertheless. One hopes that these committees will begin to steer their companies in the right direction, going forward.

It is imperative, therefore, for companies to set up appropriate committees – not CSR committees whose purpose is to determine and approve charitable donations.

These groups should, instead, be cross-functional sustainability committees with multidisciplinary experience and expertise, so that they can analyse how companies impact their stakeholders, positively or negatively, through their operations.

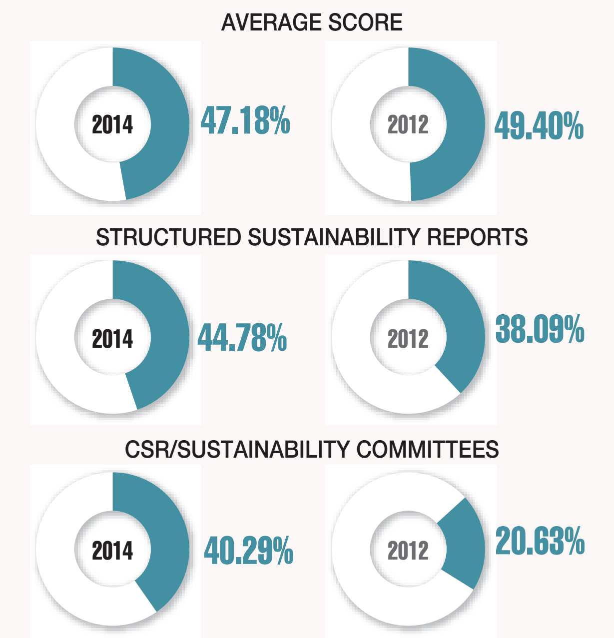
These committees must be able to put plans in place to minimise the negative impacts resulting from business operations, while aiming to maximise the positive benefits that are generated. They must set targets and objectives for continuously improving sustainability performance. And they should monitor progress against these targets regularly, to ensure that all company activities are undertaken with sustainability at their core.

CONCLUSIONS While progress has been made by companies, albeit at a slow pace, it is clear that much needs to be done by corporate Sri Lanka to truly establish a consistent and focussed effort towards ensuring sustainable business operations for the benefit of society and the environment, as well as for business.

We encourage corporates to review the findings of the Corporate Accountability Index and to learn from the experiences of those that have already established themselves at a high level, to develop sound systems of accountability, responsible governance and sustainable performance.

Companies who achieved Platinum status in the 2014 STING Corporate Accountability Index are showcased in this feature, in the hope that they will serve as an inspiration to others to instil similarly high standards for the betterment of the Sri Lankan economy, and its social and environmental ecosystem.

THE INDEX



To obtain feedback on your corporate accountability performance, email STING Consultants (tiara@stingconsultants.com)

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CORPORATE SHOWCASE

DIALOG AXIATA

Dialog Axiata recognises that the foundations of sustainable business rests on meeting the ever changing needs of diverse groups of stakeholders. The company has thus established a structured system for stakeholder engagement, to constantly be aware of their views and concerns, and provide them with information on its activities.

Stakeholder engagement occurs on a regular basis with a range of groups. In addition, key stakeholders are engaged on a two-year basis, whereby detailed information is sought on their views on Dialog's social, environmental and economic performance. The resulting outcomes form the basis of Dialog's evolving policies and strategies with regard to sustainability management.

Dialog is committed to ensuring and managing sustainability across its value chain, with an emphasis on developing and building capacity at the bottom of the pyramid. The company also ensures that community-related activities it undertakes are strategic, fully integrated and interlinked with its core business.

In particular, Dialog uses its expertise in information and communications technology to work towards bridging socio-economic disparities in access to knowledge, information, education, health and other areas by digitally empowering communities in an inclusive manner.

JOHN KEELLS HOLDINGS

John Keells Holdings has set up a robust structure to manage its sustainability agenda, which is integrated with its overall corporate governance systems.

A Group Sustainability Steering Committee has been established, with overarching responsibility for the group's performance. In addition, Task Groups are in place for each aspect of sustainability: economic, environment, labour and human rights, occupational health and safety, and product responsibility.

Each of the group's many business units also has a dedicated sustainability champion. He or she is responsible for its sustainability performance. The sustainability strategy for the group is formulated on the basis of key stakeholder concerns and material issues.

Group companies are associated with various internationally established initiatives for sustainability (including the UN Global Compact, Green Globe Certification and LEED), while they lay claim to having certified management systems for environmental aspects – health and safety, food safety and quality management.

The group has systems in place for open communication, handling grievances and whistle-blowing, including a dedicated email channel though which employees can communicate directly with the Chairman of the board.

AITKEN SPENCE

Key features that set Aitken Spence apart are its approach to risk management and the extent of its policies. The company has implemented a holistic and systematic risk management process which involves identifying and analysing business impacts on social, environmental and economic dimensions. This includes both hypothetical and actual impacts.

The company's risk management approach takes into account all aspects of sustainability, and every activity that is undertaken as part of its business operations is analysed through this framework.

Aitken Spence has also developed a group-wide Integrated Sustainability Policy, which is available on the company's website, thereby ensuring transparency. This policy is supported by clauses and sub-clauses which are communicated internally, and awareness is created amongst employees through training.

MAGA ENGINEERING

Being a key player in the local construction industry, Maga Engineering works towards ensuring that infrastructure development occurs in a sustainable manner.

This is done by engaging with stakeholders in the communities in which it operates (this is no easy task, when the location of operations changes frequently and new relationships must be built).

And this is done by analysing the impacts of operations on local communities and other stakeholders, and identifying and mitigating the resulting risks by continuously monitoring its sustainability performance, and identifying and implementing new ways to improve.

The company also ensures that its employees are on board and geared towards meeting its sustainability-related objectives, by conducting training workshops on sustainable development for management and project staff.

Maga Engineering also encourages the development of sustainable or green buildings which contribute towards sustainability for their occupants when the infrastructure within which they live or work has been created with sustainability in mind.

DIESEL & MOTOR ENGINEERING

As a company operating in the motor industry, Diesel & Motor Engineering (DIMO) recognises the ways in which it impacts society and the environment. The company is, therefore, systematically monitoring and measuring its performance on a range of social and environmental aspects. This includes monitoring and taking steps to reduce its carbon footprint.

DIMO is transparent about these impacts, and has been making information on its social and environmental performance available to stakeholders for a number of years. More importantly, the company is aware of how its non-financial performance is interconnected with its financial performance.

Accordingly, it is in its third year of Integrated Reporting, where this interconnection is made clear so that stakeholders (particularly investors) can make more informed decisions. DIMO's first Integrated Report in 2010/11 was also a first for Asia, and the company is currently part of a pilot programme of the International Integrated Reporting Council, which is working to establish a global framework for integrated reporting.

LEARNING FROM THE STUDY

The real value of the Corporate Accountability Index is in the wealth of data that STING Consultants has gathered on how companies have performed in the context of corporate accountability over a sustained period of time.

This data, which serves as a valuable measurement tool, is available to companies that can use it to learn how they have been performing over time – whether they have improved in their sustainability management, where they are strong or weak and how they stack up against their peers.

The detailed feedback that STING Consultants can provide also includes recommendations on how companies can integrate more advanced systems of corporate accountability into their operations.

Companies that are not featured in the 2014 Corporate Accountability Index can commission private assessments and feedback on their performance, which will allow them to benchmark themselves against companies that are listed.

RISK MANAGEMENT PERSPECTIVES

SUSTAINABILITY AGENDA

Ruchi Gunewardene and **Tiara Anthonisz** offer insights into the often overlooked and wider role of sustainability

There have been many local and global examples in the recent past of situations where things have unexpectedly gone horribly wrong in the corporate world, which have severely damaged company reputations and threatened the viability and sustainability of businesses. These situations have arisen due to a lack of corporate responsibility and unsustainable business practices.

When implemented effectively, the agenda of sustainability from a business management perspective minimises the risks faced by organisations by constantly seeking to understand stakeholder expectations.

Sustainable business management involves anticipating potential issues that could arise in the future, and prepares organisations to deal with these before they emerge.

In a nutshell, sustainable business management is a process of holistic risk management. Contrary to common misconceptions of the subject here, in Sri Lanka, it is not about short-term green initiatives or philanthropic projects. Some issues faced at home include the Rathupaswala water pollution incident which caused a ripple effect of social unrest and loss of life; the milk powder health scare; and more recently, the Piliyandala gas leak which resulted in the hospitalisation of over 70 residents of the area.

In some cases, these incidents involved a breakdown in the management of a particular aspect of sustainability; and in others, the entities could have been operating in adherence with all requirements and standards, but were yet faced with shutdowns.

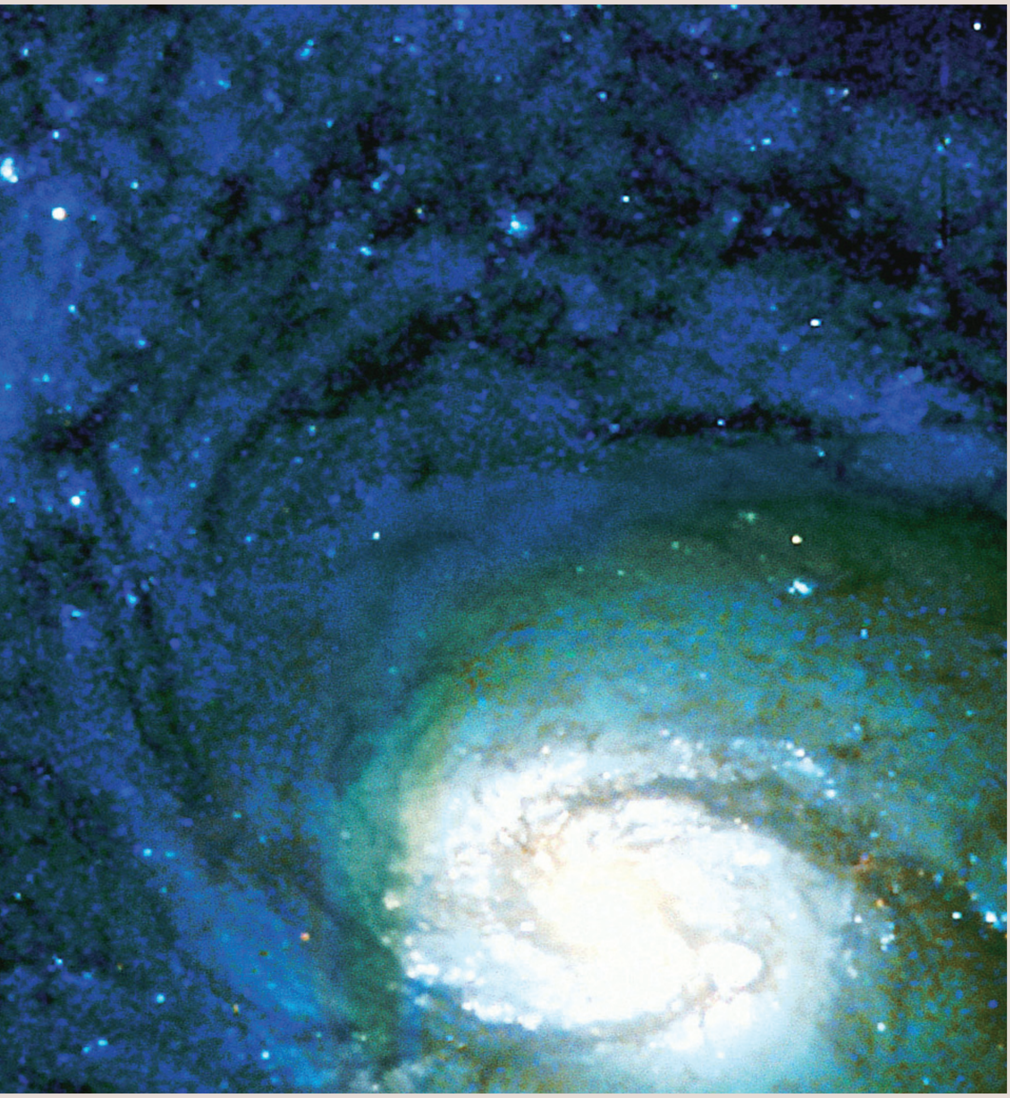
Whatever the reasons, these breakdowns have affected the reputations of organisations, including parent companies and international partners or buyers. They have resulted in financial and operational consequences in the form of plant closures and the removal of operating licenses. And they have undermined the ability of these businesses to operate smoothly in the long run.

So the actual as well as perceived risks associated with everyday operational aspects of running a business are a significant factor that affects long-term business sustainability.

Therefore, understanding the mindset of critical stakeholders is a prerequisite to being able to anticipate events such as these, before they happen.

STING Consultants advocates pre-emptive measures to be taken to mitigate some of these risks. Our approach is underpinned by the expectations and changing needs of stakeholders (who are the drivers of the sustainability agenda). Businesses cannot continue to operate in the long term without the full support and consent of their key stakeholders, whether they be employees, customers, investors, the supply chain or communities in their areas of operation.

Our approach seeks to embed a sustainable process of business management through the following core ingredients: strong corporate values; regular, open and two-way communications with stakeholders, which in part



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enables holistic risk management that takes into account impacts on all dimensions of sustainability (economic, environmental and social); strong policy guidance for employees, to mitigate negative impacts and their consequent risks and work in line with company objectives; commitment, support and direction from the very top of the organisation, through good corporate governance practices and management systems; and continuous monitoring of performance, as well as balanced and transparent communications on performance and the achievement of targets to stakeholders through credible reporting.

RISK MANAGEMENT The review and analysis of results of the 2014 STING Corporate Accountability Index sheds some light on the level at which companies have embedded this approach in their operations.

Of the 67 companies featured in the index, 31 portray some awareness of how they are impacting their stakeholders and seem aware of their stakeholders' changing needs, and have identified steps that are being taken to address them. This directly impacts their ability to manage risks, which is critical in the context of recent events – all fundamentally due to a breakdown in stakeholder relationships in one form or another.

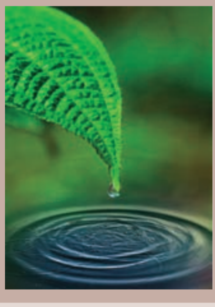
Only 20 companies appear to have implemented a system to analyse the three central aspects of sustainability (economic, environmental and social) in their overall risk management procedures, or consider risks under all three dimensions. This is a glaring shortfall, as it leaves at least 47 companies potentially open to significant risks which could affect their ability to operate unhindered in the long run.

It is important for companies to realise that risks do not only arise from their internal operations, but could also stem from supply chains – as has been the case for various international apparel retailers in the past. Companies face potential risks and reputational losses when they are found to be doing business with suppliers who act irresponsibly, or fail to respect and uphold certain social and environmental standards.

Global consumers now expect companies to monitor their supply chains and ensure that standards are maintained. They want to know that the goods they purchase have been produced – from start to finish – without causing harm to people or the planet. The proliferation of certification and labelling schemes bears testimony to this, as consumers are now demanding proof or some level of assurance that what they purchase has been produced responsibly.

Of the 67 firms featured in the STING Corporate Accountability Index this year, only 12 appear to have some form of screening of their supply chains for human rights or wider sustainability issues. This area needs to be addressed, as a lack of monitoring could leave companies open to a multitude of risks.

Additionally, screening of supply chains would have the added benefit of spreading the sustainability agenda further as more companies, including smaller scale suppli-



RISK MANAGEMENT PERSPECTIVES

SUSTAINABILITY AGENDA

MEDIA SERVICES ILLUSTRATIONS (CHAMIKARA JAYAWARDANA)

> An analysis of the 2014 index results also brings to light the number of companies that have implemented whistle-blowing policies or formal grievance-handling procedures…

ers, meet the required standards. Indeed, corporations will have no choice but to bridge this gap in the future.

The global sustainability reporting agenda manifested through the Global Reporting Initiative's (GRI) latest reporting guidelines now takes into account supply chain issues, and requires companies to monitor their supply chain sustainability performance and report on it.

An analysis of the 2014 index results also brings to light the number of companies that have implemented whistle-blowing policies or formal grievance-handling procedures, which stands at 43 of 67 – an increase from 35 companies in 2012. Such procedures are important, as employees must have a channel through which they can inform their management of any wrongdoings that could result in risks for organisation – anonymously if required.

Employees on the ground would most likely be the first to be aware of any such incidents, so it is essential that they have a channel through which to raise concerns with the confidence that they will not be penalised for doing so.

Sri Lankan businesses have implemented this to varying degrees of sophistication ranging from externally monitored phone lines and dedicated email addresses, to simply informing superiors of any incidents that may arise. Corporates must ensure that whatever processes they have in place are effective and that employees are confident about using them.

THE WAY FORWARD The results of the 2014 STING Corporate Accountability Rating indicates the extent to which corporate Sri Lanka is holistically managing its risks. But given the circumstances, this isn't good enough.

Structured and meaningful stakeholder engagement is essential if companies are to be aware of how they impact their stakeholders, what risks they face and how they should mitigate these.

Businesses must accept the fact that stakeholders now have a great deal of influence in deciding whether or not they will continue their operations uninterrupted. Engagement with stakeholders must, therefore, become a core component of their risk management procedures.

Companies must also appoint committees who are responsible for risk management from a sustainability point of view. Their role should be to constantly analyse business impacts on the economy, society and the environment, as well as find ways to reduce any negatives. Through this process, actual and potential sustainability risks associated with everyday operational aspects of running a business should also be on the agenda of company boards. This is a vital component of business continuity and profitability in the long run.

The bottom line is that it is not in the best interests of businesses to be caught off guard, and then struggle to repair the damage.

Proactive sustainability and risk management, rather than having to resort to reactive measures, are required to ensure business continuity.

Failing to recognise potential risks of business operations and reacting after an issue has been brought to light will, more often than not, result in a crisis which could very easily spin out of control. We have witnessed this in Sri Lanka in the recent past.

Companies need to establish sufficiently robust systems for holistic risk management, which can anticipate potential issues and find solutions before they emerge.

So companies must establish these systems immediately, and they must permeate all facets of their operations. Sustainable business management cannot be confined to one department or division, but must be considered across every function of an organisation if the risks are to be identified and mitigated in time.

A change of mindset is thus required. The notion that CSR is undertaken to alleviate a few social problems or gain media mileage through one-off projects is a misinformed one. Corporates must understand that there are wider issues at play – and that these issues could affect them in the long run.

They must recognise that being a responsible and sustainable corporate is an essential requirement for managing risks, safeguarding reputations and protecting the ability to earn profits in the future.

BRANDING AND CSR INTEGRATION

TWIN VALUE CREATORS

STING Consultants has worked on branding and CSR with many clients and strongly believes these key elements can combine to create value

Today, organisations are experiencing increased pressure from their surrounding environments to act as good corporate citizens whilst meeting the expectations of shareholders' return on investment. But apart from financial returns, being a socially, environmentally and ethically responsible operator is now mandatory for business legitimacy.

By aligning branding with corporate responsibility, organisations can establish a strongly differentiated strategy – and this can create significant value through an integrated approach, in what has traditionally been viewed as two separate business disciplines.

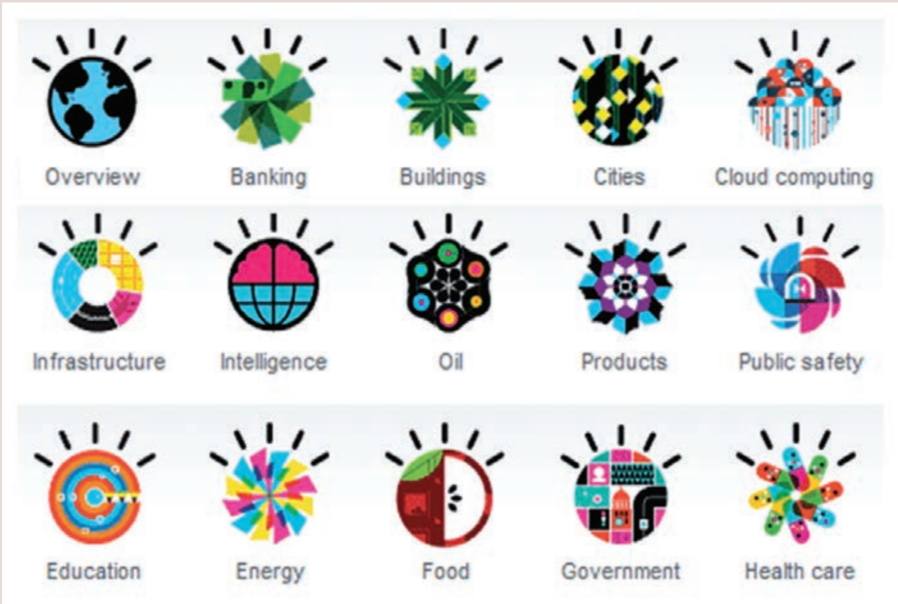
STRATEGIC CSR Over the past several decades, the corporate world has experienced an increased focus on the ethical behaviour and responsibilities of businesses. This is evident in the shift in focus from shareholder value (i.e. maximising profit) to stakeholder value, where companies are striving to balance their interactions with people, planet and profit.

This new tendency is a consequence of the fact that progressively more power has been vested in stakeholders who demand transparency in organisational communications and expect companies to be accountable for their impacts as they tap into human, natural and material resources to run their businesses.

In turn, these societal expectations have pressured corporates to act responsibly with regard to their external as well as internal environments.

Thus, CSR cannot be bolted onto organisations through ad hoc philanthropic projects or environmental initiatives. A better option is to adopt a holistic approach, which when integrated into the daily functions of the business, enhances its ability to create economic, environmental and social value.

To do so, companies must look at CSR – a term which encompasses both sustainability and good governance – in a fully integrated manner. By taking ownership of their impacts, they can minimise the negatives that occur as a result of their daily operations to a great extent, whilst maximising the positive factors they create.



STING CONSULTANTS

IBM's Smarter Planet was launched five years ago, initially as an advertising idea intended to communicate the company's intent to share knowledge, start a dialogue with customers and inspire its 400,000-plus workforce to see value in their research and thinking. This subsequently evolved into an agenda which is rooted in making the world a better place.

The Let's Build a Smarter Planet agenda was a call to such action – a commitment to sharing knowledge that would help customers. More importantly, it was rooted in the company's vision and ongoing business practices. Smarter Planet was, therefore, fully integrated into the business.

IBM's initiative seeks to highlight how forward-thinking leaders in business, government and civil society around the world can capture the potential of smarter systems to achieve economic growth, greater efficiency, sustainable development and societal progress.

This is achieved by mandating and deploying employees to address pressing community issues where IBM's core business expertise can be applied. It involves analysing data to provide solutions to complex situations that are everyday problems in major cities.

Examples include smarter electricity grids that minimise waste and leakage, more efficient water management systems, solutions to traffic congestion, greener buildings and many others. Historically, these systems have been difficult to manage because of their size and complexity. But with new ways of monitoring, connecting and analysing data, business, civic and non-governmental leaders are developing systems to manage these issues. This benefits both IBM and the community.

STING CONSULTANTS

Body Shop is the quintessential ethical cosmetics company that pioneered natural and ethically produced beauty products. Inspired by nature, it shunned animal testing which was an industry standard at the time. The company actively advocated self-esteem amongst women, even shunning the ultra-thin female models. Today, it supports fair trade, defends human rights and is sensitive to protecting the planet throughout its global operations.

Odel's Embark represents a unique ethical brand that the company has created, which is both a commercial success as well as an initiative that is tackling real social issues in the community.

Stray dogs are a health hazard to citizens, and they need to be managed effectively. On the one hand, whilst the local authorities are responsible for managing this hazard, their approach isn't necessarily humane and is reviled by dog lovers.

Embark is a classic example of how all stakeholders can be brought together to resolve this issue. First, by mobilising the community to address real issues (through adoption, sterilisation and so on), it is able to minimise and move towards eradicating stray dogs in the long term.

Secondly, this initiative actively engages with potential customers of Odel. It is a project that is close to their hearts. Through Embark branded products, they are able to commercialise this initiative which has now gained wide acceptance, enabling it to plough a percentage of profits back into the programme. This makes the entire Embark brand and community service a self-sustained initiative, creating value for all of its stakeholders.

And they must do so in a transparent manner, offering stakeholders all the facts (positive and negative), so that all parties are aware of what is being done – and more importantly, what more needs to be done to ensure a sustainable future for all.

There are multifaceted implications within a networked society which businesses must now navigate and contend with. Whilst there are potential risks for all companies, those who fail to take pre-emptive action run a significantly higher risk of something going unexpectedly wrong, even after decades of doing business successfully.

The past is no longer an indication of continued success in the future. This is why strategic CSR, responsible business and greater accountability play a critical role in ensuring business sustainability.

STRATEGIC BRANDING A brand is simply the way consumers define or perceive a product or service, which is uniquely differentiated vis-à-vis the competition. It is about what the brand stands for. And it isn't a brand, if the sole objective is to sell the product or service at the lowest price. If that is the sole purpose, then it is a commodity.

If there is no meaning or purpose behind the product or service, and if the brand owner is unable to define or articulate what it stands for, then in essence, there is no brand. In such situations, there is a name but not a brand.

So brands essentially reside in the minds of customers. If there's a distinct offering or position in the mind, it can create considerable value to the business. Branding is all about finding ways of creating this value.

In an environment in which the functional differences between products and services have been narrowed to the point of near invisibility by the adoption of total quality management, brands provide the basis for establishing meaningful relationships. This requires detailed market information and customer insights.

Considered in this light, being socially responsible is a fundamental expectation of consumers. It is, therefore, a necessity for a product or service to succeed. Thus, strategic CSR is at the very foundation of building a successful brand.

BRANDING AND CSR INTEGRATION

TWIN VALUE CREATORS

KEY CONSIDERATIONS If being responsible is the base of building a successful brand, then strategic CSR has to be an integral part of the way a business is run. Being responsible ensures accountability and dependability, and it is a core value of being honourable.

Firstly, building this requires knowledge and information not only from a customer's purchase consideration point of view, but also in the broader context of being a stakeholder of the brand or company. There could be multiple roles that customers play as stakeholders, which must be recognised. He or she could reside in the vicinity of where the business operates, be an employee of an NGO that can impact the business or a regulator who is responsible for the sector and so on. Therefore, insights and information from a customer as well as a stakeholder perspective are key to developing the brand and establishing a responsible business system.

Secondly, there has to be relevance to customers and other stakeholders. The way in which this can be achieved is to adopt a holistic approach to CSR and branding. This means that the brand and CSR become a part of the manner in which the company goes about doing its business. This way, neither branding nor CSR is 'bolted' on. They are integrated into a system which becomes the culture of the organisation, fully in tune with its customers and stakeholders.

Thirdly, the way in which the organisation approaches its customers and other stakeholders needs to be unique. This involves considering how the company can innovate from a product or service offering perspective (which will benefit the brand) or in the way it goes about doing business responsibly (which is strategic CSR). This can set the stage for long-term value creation.

And finally, the company must consider this dual approach to be a long-term commitment, and not a short-term stopgap measure. Thus, the entire approach to branding and CSR is linked to business sustainability with a long-term view.

In this manner, branding and CSR become strategic tools. And once they are integrated into the business model, long-term initiatives which complement and support each other can materialise.

MEDIA SERVICES GRAPHICS (SANJAYA DE SILVA)

SYNERGISTIC IMPACTS CSR establishes the halo on a responsible business, which is all about trust and caring, and being ethical, transparent and helpful. It provides a base for being morally correct. This is absolutely crucial for brands to attract and engage with customers continuously. Successful brands have a genuine commitment to improve societal well-being through their business practices, whilst contributing towards corporate success.

As brands go about carving their own points of differentiation in the market, this foundation of committing to improve aspects that influence provides an even greater impetus for customers to interact with them.

Therefore, CSR contributes to the brand through a feeling of genuine believability that emanates from all aspects of a business – processes, systems, culture, employee behaviour, and the way it goes about engaging and communicating with customers and all other stakeholders.

Some examples of organisations that have achieved this include IBM and Body Shop, at a global level, and Odel's Embark locally.

CORPORATE RESILIENCE Corporate or brand reputation is only as good as it is today. Much hard work has to go into extending that reputation for tomorrow. And as a business grows and becomes more complex, the vulnerability of the brand increases.

Once a strong brand has been built, ensuring it is maintained is as challenging as building the brand itself. This is where strategic CSR can play a vital role in maintaining that reputation. When deployed correctly, strategic CSR minimises the risks to an organisation by understanding stakeholder expectations. It anticipates issues that could arise in the future and sets up the organisation to deal with them before an issue emerges.

Organisations should anticipate issues through their own systems and strict standards, by continuously looking outwards and benchmarking themselves against international companies and world-class practices. Brand building and strategic CSR should not be confined to any specific department or division within an organisation. Instead, they must be actively managed throughout the company; from the manner in which it goes about running everyday operations and investing in research and development, to the innovations it offers customers.

Far too many organisations are resorting to 'green washing' activities which involve carrying out ad hoc philanthropic projects with communities or short-term environmental initiatives that are unrelated to their business – all of this, purely for public relations purposes! These endeavours have little value in building resilience and enhancing reputations amongst stakeholders.

DRIVING SUSTAINABILITY Whilst CSR primarily influences the behaviour of a company, once it is aligned to support the brand, it results in an extraordinarily powerful synergistic system that is ingrained in the corporate culture and is difficult to be replicated by competitors. It also ensures consistency across everything the organisation says and does, and moves it in the direction of a long-term path of sustainability.

Many organisations view branding and CSR independently. This results in foregoing a significant amount of value through the investments that are made. There is much synergy to be gained by looking at them through an integrated lens which can build substantial equity for the business.

– Compiled by Ruchi Gunewardene and Tiara Anthonisz