Corporate Responsibility: The Future

- Tiara Anthonisz-

The future of business is intrinsically linked to strategic corporate responsibility. There are too many emerging variables in place for this not to be the case. The internet has been a key part of this, as anyone with access to a computer now has access to an abundance of information on the businesses that they patron. A few choice words by a disgruntled stakeholder via Facebook or Twitter can cause catastrophic consequences to companies. Recent events in North Africa and the Middle East have also shown that this can be the case for Governments or individuals.

There has also been widespread acceptance of the environment as a key global issue of our times. The consequences of climate change and global warming have been increasingly accepted, along with their connections to the activities of human beings. It has become widely recognized that human (and corporate) activity is harming the environment. This is now not just known and accepted by business, science, or academic circles, but has become incorporated into the daily lives of ordinary citizens through television, blockbuster movies and the like.

The moral compass of consumers has also shifted. Those who were once happy to shop at the notoriously discount, poor reputation retail outlets, have now changed their views, and are no longer willing to shop for less if it means that workers in developing nations are exploited in the process of providing them with those goods. Companies also face competition from other companies who have already realized that they need to be responsible through their operations. They are using this as a differentiator. And of course it is a powerful one. Morally and ethically conscious consumers would always rather buy guilt-free goods from a company they know to be doing their utmost to ensure responsibility through their operations, than from a company they know to be destroying the environment and misusing their human capital.

So there is no doubt that the future of business is in corporate responsibility. The question corporates would be most interested in would then be, when do they need to adapt?

The answer is now. There are a number of changes taking place on the global platform, which have meant that companies are running out of time.

Regulation is increasing, in various forms worldwide. Perhaps regulators have realized that businesses are moving too slow in this field, and have therefore decided to take matters into their own hands and force companies to adapt. This is already in the works in India, where the Ministry of Corporate Affairs has alluded to the possibility of imposing rules on companies directing how they should spend on corporate responsibility, and in effect, making this a mandatory exercise. This comes from the view of the regulators that corporate India is not paying enough attention to the social and environmental considerations of their businesses. This is bad news for companies, as regulation limits the possibilities for innovation, and companies will have to spend their time struggling to comply. Companies in Sri Lanka must make the move towards properly integrated corporate responsibility now, while they still have the chance to forge their own paths in this field.

Restrictions are also growing in other forms, including through the requirements of stock exchanges worldwide. In China for instance, the Shanghai and Shenzen Stock exchanges have set out that companies within the 14 most energy intensive industries must meet certain mandatory environmental requirements if they should hope to initiate an IPO.

These changes are occurring close to home, so Sri Lanka Inc. cannot hope to remain insulated forever.

The global investment community is also increasingly taking into account corporate responsibility in their investment decisions, through socially responsible investment (SRI). Global investors have realized the link between sustainability performance and financial performance, as well as the comprehensive risk management of companies operating responsibly, and so a growing number of investors only invest in those companies that have shown to be operating in a responsible and sustainable manner. SRI has shown a steady increase over the years, and has seen the development of specific tools such as the Dow Jones Sustainability Index and the FTSE4 Good Indices. In the US alone, by early 2010, professionally managed assets following SRI strategies stood at $3.07 trillion, out of the total $25.2 trillion assets under professional management.

SRI involves the screening of companies, where investment portfolios are screened against specific social, environmental, and good corporate governance criteria. Investors would then only select those companies showing strong corporate responsibility performance, and will avoid investing in poor performers. This puts further pressure on companies globally, to integrate responsibility into their core strategies. The screening of companies for SRI goes to the extent of assessing far removed members of the supply chain, many of whom could include local manufacturing companies in Sri Lanka.

Changes on the sustainability reporting front have also significantly shortened the lead time available to companies in Sri Lanka, for integrating corporate responsibility into their core business strategies. The sustainability reporting agenda is now thinking beyond the basic environmental, social, and governance (ESG) reporting view, and the future now lies in Integrated Reporting, which 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 companies with the tools to understand the relationships between its financial and non-financial performance, allowing them to make the correct decisions in establishing sustainable business strategies.

An International Integrated Reporting Committee (IIRC) has been established in order to create a globally accepted framework for reporting which will make clear the link between sustainability and economic value, and will rebalance performance metrics away from undue emphasis on short-term financial performance. The key for integrated reporting will be the collaboration of all functions of a company, and it will be essential that non-financial measurement systems and internal controls are developed to the same standard as financial ones.

Though there is no clear timeline for when the Integrated Reporting Framework would come in to place, there have already been significant steps taken on this front, particularly in South Africa, where integrated reporting has already been made a mandatory requirement for all companies listed on the Johannesburg Stock Exchange. So it is only a matter of time before this spreads to other nations and all publicly listed companies worldwide are required to comply.

It is clear that companies are facing, and will continue to face, a lot of pressure from some of their most key stakeholders, to integrate corporate responsibility into their core businesses. This applies to companies in Sri Lanka, as much as it does elsewhere. It will not be long before local companies who are not focusing on corporate responsibility, realize that they have to, if they are to remain competitive in this new morally focused, networked world. The hope is that they realize this now, before regulation and restriction come into play, which will limit their potential and hinder their scope in contributing to the overall sustainable development of our nation.

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