

Business Management & Corporate Governance

Views on Sustainability Reporting Today

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All Entrepreneurs, businessmen as well as professional managers will agree that they want their business / companies to last as long as they live and even beyond their own life time. This 'Longevity' of company is nothing but 'Sustainability'. Can companies have long life unless the society within which they operate has sustainable environment? If the answer is yes, then it is evident that 'Sustainable ecosystem' is essential for the longevity of the companies.

We will have to understand Sustainable ecosystem in a broader term. Sustainability has not only to do with clean environment; it has equally to do with Transparent & equitable 'governance' of the companies in a corruption free Society. It has equally to do with Value based, efficient & accountable 'management' of the companies. Thus it entails Environmental, a Social & Governance issue, that is the reason why ESG index is being adopted by several countries, India being one of them.

Therefore, the issue of Sustainability should be dealt at two levels viz; Governing for Sustainability & Managing for Sustainability

Governing for Sustainability: The prime driver for this is board led by Chairman. Board should apply two parameters, one focusing on **Environment & Social** indicators and the other one focusing on **Corporate Governance** indicators.

While the social and environmental parameters should be measured based on company's adherence to the framework of Global Reporting Initiative (GRI), Global Compact (GC) and Millennium Development Goals (MDG), The corporate governance should be measured based on Governance structures, board processes & practices.

Ideally, Non Executive Chairman or Lead independent director can take the lead to bring **Sustainability** in to the top agenda. That is to say that **Sustainability** should be integrated with in the corporate Strategy of the company.

The board has a major role to play in strategy building and thus usually when boards have a Strategy meeting, it should discuss and debate, how do the operations of the company degrade the environment, due to it's carbon foot prints, how transparent is the governance of the company, does it encourage whistle blowing, what is the policy of the company to deal with corruption, is there a code of conduct for the top management as well as the board, in addition to the employees.

If need be, the board Charter should be re-written to include sustainable development as an important responsibility of the board. Going forward, the board should establish mechanisms & framework to deal with each of these issues and communicate it across the organization to avoid any ambiguity.

The Board should clearly state it's position, saying, Sustainability, is not only a 'feel good' factor or Public Relation exercise but a business imperative. There can be a big

down side in NOT having **Sustainability** in mainstream of the company. It is a 'RISK', not only a reputational risk but also a strategic risk, which will percolate into operational risk and eventually become financial risk and seriously affect the bottom line of the company. That's when management will understand the business implications of **Sustainability**. Finally boards also need to bring a shift in the 'mindset' of CEO's that is to move away from 'quarter on quarter' to long-term value creation in business, if they do so the wall street & market cap will automatically take care of themselves.

Managing for Sustainability: In fast globalizing world, there is a noticeable paradigm shift in the business environment. The profile of investors & shareholders is undergoing a sea change. The expectations of customers & employees are changing rapidly. Thus managing for Sustainability is a business imperative. Let us examine what is changing and how;

Institutional Investors and Activism: Institutional investors are a major source of cheap capital and they expect a different corporate behavior, high level of transparency. They want to engage with the board and the top management to understand how accountable is company's decision making. Does company treat its shareholders with equanimity? They want to have a say in appointing and removing the directors. They want to know how environmental & socially responsible is your company?

Customers: Today customers are becoming more and more discerning and demanding. They want safer products and at lower cost. Thus companies producing goods and services through cleaner and innovative technologies will be rewarded by millions of customers through repeat demand and not just one time purchase. Therefore brand equity of company will get built and eventually the market capitalization will go up.

Employees: They form a large part of stakeholders; they will like to work for companies which are equal opportunity employers, who not only pay well but also treat employees with respect, do not have gender biases or harassment, empower people. Provide ample career growth & development opportunities. Employees like the whistle blower policy which not only assures them a fair & congenial working atmosphere but also gives them a sense of security. And finally people love to work for companies who have transparent governance and who respect environment & sustainability.

Need for empirical evidence: Business around the world understands the language of 'money'; that's the reality of life. Thus GRI and other institutions around the world should undertake research that can create empirical evidence that 'good governance is good businesses. Integrating sustainability in business strategy will go beyond feel good factor and actually lead to enhancement of market capitalization, only then can we expect companies to embrace the principles of sustainability wholeheartedly and in true spirit.

The empirical evidence from India: Asian Centre for Corporate Governance conducted a research on 100 Indian companies as the universe of the research. These companies were chosen from Sensex -30 companies of Bombay Stock Exchange, Nifty-50 Cos of National Stock Exchange, and Companies from ESG index by CRISIL. The research was led by the author of this article. The financial performance of these companies was back tested and plotted for last three years taking Compounded Annual Growth Rate (CAGR %) of EBITDA, PAT and EPS numbers as parameters. It was found that the companies run by value based management team and the companies

which are better governed, turned out to be more profitable consistently over a period of three years. Naturally their market caps were higher. They were also perceived as 'Employers of Choice' by the large talent pool of India.

Regulation is not the answer: Just as integrity can not be mandated, Sustainability also can not be mandated; however regulation has a limited role to the extent of creating an initial framework, which should ensure basic fair business practices. Beyond that the world has to move from 'Rule based' to 'Principle based' regimen because it is easier to bend rules but we do not like to short circuit the principles that we believe in.

Therefore, institutions like GRI have a great opportunity to promote 'principles' of sustainable development and encourage companies around the world to adopt these principles within the frame work of their national culture & jurisdiction.

Finally, only good intent is not enough, companies need to show action and perform well along all the three parameters of environmental, social and corporate governance responsibility aimed towards sustainable development. Reporting Sustainability is very important because it conveys to all the stakeholders & Society, the good work the company is doing. This also raises the bar for the market peers which are not performing as good on these three parameters.

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