

TOOLKIT OR FAD?

This is the first article in a two-part series on sustainability and why it should be a strategic part of the business. **Jack Cunningham** presents some key findings from PwC's survey

Sustainability (CSR or corporate responsibility, as it is often still called) has become a buzzword among business people, governments and consumers over recent years. But what does sustainability really mean? Why is it so important? And what do businesses gain from acting sustainably? After all, isn't sustainability really just another fad or bandwagon that consultants and do-gooders promote in order to pursue their own careers?

The Brundtland Commission defines sustainability as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. This may sound idealistic, but sustainability is really about finding a healthy balance between environmental, social and economic factors. It also touches on a wide range of other important business issues and functions: governance, reputation, resource efficiency, customer-centrism, stakeholder engagement and ethics, to name a few. Its goal is that profit, and responsibility to shareholders is preserved, but so too are

- * the launch of Khazanah's 'Silver Book' for government-linked companies;
- * feed-in tariffs to stimulate uptake of renewable energy;
- * the Malaysian Code of Corporate Governance; and
- * Bursa Malaysia's director's guide to sustainability.

While there is no mandate in Malaysia for sustainability, external pressures (from overseas investors or customers) are starting to have an impact. Some local and international firms based here are crossing into this sphere, becoming more strategic about sustainability. But much more can be done.

Masked benefits

One of the main barriers in emerging countries is that many are focused primarily on growth, so sustainability struggles to 'earn its keep'. Often there is little regulation, threat of enforcement or a clear long-term strategy for sustainability. Businesses expect that sustainability must have an immediate 'pay-back'.

The truth is, the initial investment in time or capital for sustainability is immaterial to most companies' operating costs – initiatives usually require little capital and there is rarely more than a few full-time employees involved in sustainability programmes. Like most new service lines, sustainability

starts out as a cost centre. As companies mature in their understanding of sustainability's benefits, it can be cost-neutral at worst, and cost-saving or revenue-enhancing at best.

There is a growing body of empirical evidence to show that companies that have embraced sustainability outperform their peers. The biggest challenge for organisations embarking on sustainability is that much of what it is does not carry an immediate value, cost or benefit. A company has no way to value it in traditional accounting models. The natural response to this perceived lack of value is of course for people to then devalue its impact and do nothing about it. However, green shoots are appearing. Some firms are starting to put a value on their social and environmental impacts and are reporting their non-financial aspects in a fundamentally different way.

These companies are embarking on an exercise of sustainability valuation, i.e. putting a monetary value on sustainability initiatives to show their contribution to strategic value at either a corporate or societal level. Such exercises can either be performed on parts of a company, a whole company

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the long-term health and wellbeing of communities, and the natural environment in which a business operates.

I liken sustainability to a multi-purpose tool. A CEO may not know what the tool does or how it will be of benefit today – in fact they may be sceptical it will ever be useful – but might conclude that it could come in handy in the future and that there is a risk to not adding it to the toolbox. Many years ago, business attitudes towards the concept of human resources (HR) management was embryonic, an organisational issue that many companies chose to ignore. Labour was there to be used for the benefit of the company, with staff remuneration justifying unfavourable working conditions or treatment. Now, HR management and human capital management are among the most fundamentally important components of a good business as companies recognise the criticality of a talented, engaged, rewarded and retained labour force. The same attitude towards sustainability is starting to take hold.

The advancement of sustainability in Malaysia goes back years; initiatives from the regulators and government include:



or even whole cities or countries. The best known example of sustainability valuation transforming the way that business is conducted is Puma's Environmental Profit & Loss Account (EP&L). In 2010 with the help of PwC, the sports and fashion footwear and apparel brand embarked on this initiative – the world's first – to allow the company to determine its sustainability focus areas and to develop products that make a positive difference. One of the areas it looked into was finding new materials and production techniques that are cost-effective and with a lower environmental impact.

Globally, leading firms can afford the time to undertake these sorts of cutting-edge initiatives, safe in the knowledge that their brands are well established and that their markets are secure enough to allow innovation to be an acceptable risk to take. For companies like Puma, sustainability has been a key component of the toolbox for some time.

But what are the insights or experiences of firms that have not yet decided whether sustainability is a tool they even want to add to the box, or for whom it is a relatively recent addition?

To try to understand more about sustainability from a

more local perspective, our PwC Malaysia sustainability team conducted a survey last year across the 'ASEAN-5' countries of Malaysia, Thailand, Philippines, Vietnam and Indonesia. Our findings, gathered from more than 200 companies, give us a clear insight into the maturity of sustainability and shows not just how far some companies say they have come, but also how much further there is to go.

The intention to find out how well companies were progressing with their sustainability programmes led us to develop certain hypotheses about how companies structure and manage sustainability, how they engage stakeholders and also how far they are currently disclosing what they are doing. These hypotheses were based on our experiences with clients in the region as well as the team's own experiences – mine included – in developing and implementing sustainability strategies within the companies themselves.

At the highest level, it was clear from the vast majority of firms surveyed that sustainability was seen as relevant to their business. This is perhaps unsurprising – few would openly admit that sustainability is irrelevant – but what was more »



‘COMPANIES RECOGNISE THE IMPORTANCE OF SUSTAINABILITY BUT FEW ARE MAKING IT A REGULAR BOARDROOM AGENDA ITEM’

CHALLENGE FOR ASEAN FIRMS

How are ASEAN firms managing sustainability and what are the key driving forces? PwC's survey takes a first-of-a-kind regional look at how firms are strategically embedding sustainability across their business. In particular, it studies the maturity of sustainability and comes to some striking conclusions.

Some of the key takeaways from the survey include:

- * 81% of companies say sustainability is extremely or very relevant to their business, but fewer than half actually have a strategy.
- * Only 1 out of 5 say sustainability is a regular agenda item at board meetings, and only 3% have a good leadership structure to drive sustainability.
- * Only 12% engage regularly with all their stakeholders on sustainability.
- * 64% of companies report on sustainability; but of those, only 18% have independent third-party assurance for their sustainability reports.
- * Energy and carbon-related costs will become the number-one driver over the next five years.

The survey polled the responses of more than 700 sustainability practitioners from prominent companies across industries in Malaysia, Thailand, Indonesia, Philippines and Vietnam. We received more than 200 responses from firms across various industries.

surprising is that fewer than half have a strategy that is aligned to the business. For those that said they intended to implement a strategy, it's perhaps a little worrying that they might be doing this without the support of their leadership – with only 3% saying they

currently had the right leadership structures in place to drive sustainability and only 20% saying that sustainability was discussed at board level. As PwC Malaysia's consulting leader Sundara Raj said at the launch of the report we developed from the findings, 'There seems to be a fundamental disconnect – companies recognise the importance of sustainability, but few are actually making it a regular boardroom agenda item.'

It is encouraging to see from our survey findings that Malaysian companies are more advanced in their adoption of sustainability. In the next article, I will share more insights from our report, *Going beyond philanthropy*, that will shed more light on sustainability in the region. ■

The second article will discuss wider sustainability trends.

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FOR MORE INFORMATION:

ACCA's report, *Is corporate Asia ready for the green economy?* is at www.accaglobal.com/accountability



PwC's report, *Going beyond philanthropy*, is at tinyurl.com/pwcsustainability



Bursa Malaysia's director's guide to sustainability is at tinyurl.com/oe84j6d

