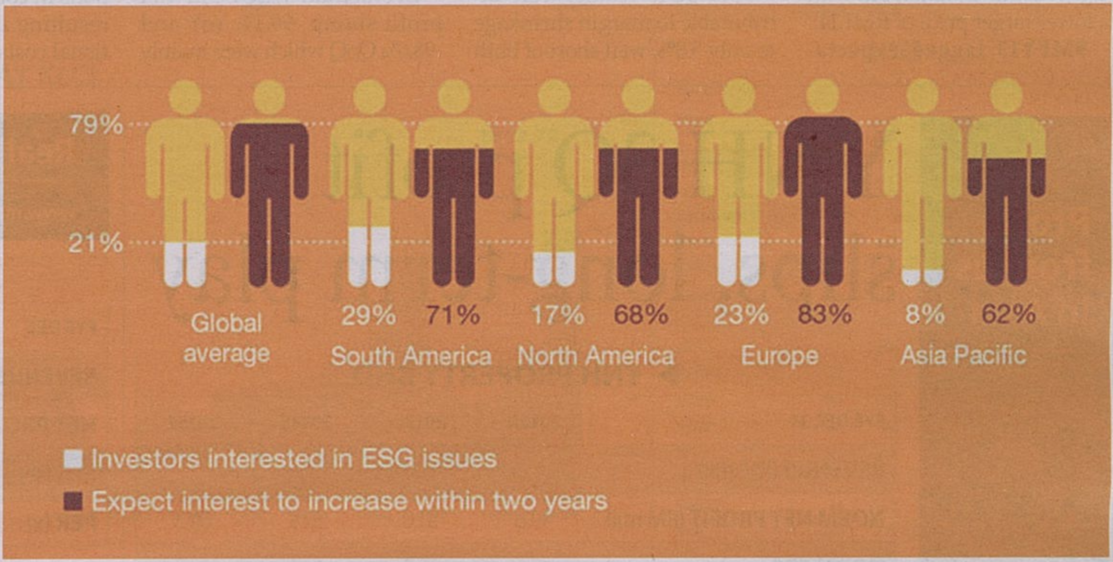
Sustainability, corporate governance make good bedfellows

Companies urged to pay attention to stakeholder engagement and managing investor relations through effective disclosure



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CORPORATE governance while it is being bandied about by policymakers and regulators begs the question of why is it a business imperative?

With the growing decline in public trust in the aftermath of the global financial crisis, boards are increasingly under pressure to step up in their role as corporate governance stewards. Long-term sustainable development would be virtually impossible without balancing the economic, social and environmental factors of the equation.

A study by the World Bank/International Finance Corp on the impact of sustainability indices reveals that corporate governance factors whether alone or as part of a sustainability initiative, play an increasingly important role in guiding investment decisions, particularly in emerging markets. Good corporate governance can be an effective market differentiator, helping businesses earn goodwill to attract potential customers and investors.

The PwC Global Private Equity Responsible Investment Survey 2013 studied the private equity industry's attitude to environmental and social governance issues. It highlights that investor's interest is expected to rise in the next two years (it's 21% now, but 79% of private equity houses believe it will increase).

In view of growing investor concerns, many countries have reformed their corporate governance laws to push for business perfor- mance improvements and encourage companies to become more socially and environmentally responsible.

The Malaysian Code on Corporate Governance 2012 released by the Securities Commission sets specific recommendations for companies to integrate good corporate governance as part of their business dealings and culture. This new code on corporate governance emphasises why the board needs to pursue sustainability by aligning it to their business goals, rather than just for building reputation.

The code's first principle, "establishing clear roles and responsibilities" recommends that the board ensures that the company's strategy promotes sustainability.

Stakeholder engagement and higher quality disclosure to communicate business strategy, performance and prospects are critical elements of being sustainable and therefore are important corporate governance considerations.

> *Conceptually, integrated reporting builds on existing financial reporting to present an additional narrative about the company's strategy, governance and performance*

Stakeholder engagement is becoming increasingly important in corporate communications. It is an insurance policy of sorts for a company's reputation. It is pivotal in a diverse society, where expectations vary of how businesses should behave and how they should meet stakeholders' needs. Only by responding to their expectations can businesses create the necessary conditions for continuing business success. Stakeholders, increasingly empowered with the growth of social media — online platforms of self-expression freely accessible to millions and are able to make or break a firm's reputation in an instant.

Proactive disclosure is important in managing investor relations. Investors today are looking beyond the annual report as the primary source of information for investment decision making. In the Association of Chartered Certified Accountants' survey of 300 UK- and Ireland-based investors, almost two-thirds of investors said that they place greater value on information or commentary that has been generated outside the company than on traditional corporate reporting.

On a similar note, PwC ma- naging partner Sridharan Nair was quoted in a local daily as saying: "the market is actually demanding more information on non-financial aspects. For many companies only about 20% of their value is actually captured in the balance sheet, in the form of tangible and some intangible assets. So it makes sense to communicate what is not on your balance sheet as well."

So how do we make sustainability strategic so that it helps companies survive and thrive in difficult times? In Malaysia, the government is making some headway in promoting sustainability. In the recent Budget 2014, the government announced that an Environmental, Social and Governance Index will be launched to raise the profile of listed companies. Hence, companies with existing integrated sustainable solutions in their supply chains and business processes are well-positioned for market leadership on the strength of their values and how they do business.

The change that I'm advocating is the need for companies to pay attention to stakeholder engagement and managing investor relations, through effective disclosure. In keeping up with the need for higher quality disclosure, future reporting trends lie in "integrated reporting" which combines financial and non-financial (sustainability) performance in one report. Conceptually, integrated reporting builds on existing financial reporting to present an additional narrative about the company's strategy, governance and performance. It aims to provide a complete picture of a company, including how it demonstrates stewardship and how it creates value beyond the bottom line.

Change is a risk in itself but it's a necessary evil if companies are keen on managing risk for long term survival. As Charles Darwin rightly pointed out: "It is not the strongest of the species that survives, nor the most intelligent…it is the one that is the most adaptable to change."

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