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A primer for corporate leaders in the age of reporting and standards

While the natural instinct is to have in-house experts or outside consultants doing everything in governance and sustainability reporting, this cannot be the case as leaders' ownership is necessary. BY LAWRENCE LOH

BOARD directors are probably facing a crunch time now for governance and sustainability. Every so often, a new standard pops up. And with almost immediate prodding from the multitude of stakeholders, especially investors, management gets into a tailspin to generate the necessary reports in "compliance" with the every standard that emerges.

GOVERNANCE DIRECTION

In governance, the strain is probably not so protracted. There is the immutable company law usually in the form of acts of legislation. And there are the listing rules if the companies are in the stock exchanges.

However, detailed, often prescriptive, guidance comes usually from codes of corporate governance. In fact, there are many such codes existing worldwide now, each applicable to a certain jurisdiction.

The first code is probably the famed "Cadbury Report" in the UK in 1992, which was to be a gold standard for many other jurisdictions to follow suit. In the UK itself, this has gone through several iterations before it reached the latest version in July last year.

The US saw a more dramatic response to address the abuses of corporate governance. It legislated an extremely comprehensive law in 2002, popularly-known as "Sarbanes-Oxley Act". This was done in double-quick time as reaction to the spectacular Enron fiasco and a subsequent string of large corporate scandals.

Many other jurisdictions indeed have also promulgated their regulations in corporate governance.

There are six capitals – financial, manufactured, intellectual, human, social and relationship, and natural – involved in a value chain that turns inputs into outcomes. Companies can "connect the dots" in relating their sustainability endeavours to their specific businesses.

In Singapore, there is a Code of Corporate Governance that was streamlined in the most current version of August 2018. This came after the initial release in 2001 and two subsequent revisions in 2005 and 2012. The revamped 2018 Code was accompanied by amendments to the mandatory listing rules of Singapore Exchange.

So it seems that corporate governance is well taken of as far as regulation is concerned and all is well that ends well, perhaps.

SUSTAINABILITY CHALLENGE

But not quite – enter sustainability and the picture becomes more fuddled. Sustainability is a multi-faceted notion that encompasses the so-called "ESG" or environmental, social and governance criteria. It can indeed mean different things to different companies in even more different sectors.

Unlike governance, sustainability is hard to be regulated in the necessary details. Other than specific aspects such as emissions for the environmental portion or labour issues for the social portion, most jurisdictions will probably require companies to report more generally on sustainability through a comply-or-explain basis.

The Singapore Exchange, for example, has done so recently for its listed companies for financial year ending Dec 31, 2017 onwards. In particular, it has stipulated that companies must use a sustainability reporting framework as one of the five primary reporting components.

The challenge, however, is that reporting frameworks are normally based on standards and there is a garden variety of these in the marketplace now.

REPORTING APPROACH

The dilemma for corporate leadership is to decide which sustainability standard to use.

Firstly, a key factor is whether the standard is widely accepted. At present, it appears that the Global Reporting Initiative (GRI) is leading the pack among various standards. The latest version is the GRI Standards, which stands out as a modular, yet interrelated, guidance set covering a range of economic, environmental and social issues.

Many companies worldwide, including Singapore, have already referenced their sustainability reports to the GRI Standards.

Secondly, the company must see if the standard is relevant to itself in its particular industry. Beside the GRI, many companies have picked the Sustainability Development Goals (SDGs), which are some 17 global goals established by the United Nations General Assembly.

Examples include no poverty, zero hunger, good health and well-being, just to name a few. For companies, issues in the sustainability report can be explicitly mapped to the relevant SDGs.

Thirdly, companies have to determine what will be important to their key stakeholders. Many stakeholders have recently taken a sharp interest in climate change.

In this light, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) have gained much traction. TCFD's coverage is holistic, encompassing the core elements – governance, strategy, risk management, and metrics and targets. The issues in the sustainability report can be aligned with each of these elements.

Fourthly, the many aspects of the company can be tied together through a framework developed by the International Integrated Reporting Council (IIRC). The overriding basis of this is on how value is being created.

Accordingly, there are six capitals – financial, manufactured, intellectual, human, social and relationship, and natural – involved in a value chain that turns inputs into outcomes. The upshot is that the companies can "connect the dots" in relating their sustainability endeavours to their specific businesses.

Finally, there are niche reporting methods for carbon emissions. There are technical ways to establish the so-called "science-based targets" to reduce the various sources (or "scopes") of carbon emissions. Carbon reporting is indeed one of the most critical domains of sustainability in relation to climate change.

BEYOND REPORTING

Corporate leaders already have their plates very full, running the company for the long haul as well as on a day-to-day basis. The natural instinct is to have in-house experts or outside consultants doing everything in governance and sustainability reporting. This cannot be the case as leaders' ownership is necessary.

Reporting does serve its role. While it should be the end point of stating what has been done, ironically it is often the starting point of deciding what to do. There is nothing wrong with this as it is the outcome that matters.

But the most crucial consideration for corporate leaders is never to lose sight of the basic purpose of reporting. It cannot be done for its own sake. In the midst of the reporting frenzy, it must be remembered that the board is a board of directors and not a board of reporters.

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