

A new frontier for risk management

| BY HELENA BARTON |

Society's expectations of companies have broadened over the past decade. It is no longer enough for companies to explain what they do with the money they make. They are increasingly being held accountable for how they make it. Companies are also regularly judged on how they report their corporate responsibility (CR) performance. Is the reporting "green-wash" or is it trustworthy? Failing to respond in a credible manner can put a reputation at risk. It can even threaten a company's social licence to operate.

The new risk reality requires more coordination and communication than perhaps ever before in business. The globalisation of business alongside rapid changes in geopolitical and environmental conditions mean that companies are presented with growing levels of complexity and uncertainty in their operations. Businesses today have to navigate a competitive landscape that is changing faster than before, if they want to retain and strengthen their long-term profitability.

Stakeholder engagement has become an important activity for many companies to gauge and respond to the "terms and conditions" that underpin their social licence to operate. Some use quite sophisticated "risk radars" to track

changing social expectations and improve their risk management processes.

"Mapping out" CR risks according to how they affect key business value drivers is a very useful exercise. Not only as a starting point for building a strategic response, but also as an ongoing register of where a company is most exposed and needs to focus attention to protect its value.

An example of a corporation that completed this exercise is the Commercial Bank in Sri Lanka. Det Norske Veritas's CR assessment tool helped Commercial Bank focus on areas of material risk to the company's reputation, human capital management and marketplace position. The results informed high level discussions on the strategic importance of CR to the company and its stakeholders.

Communication of companies' CR performance is a key aspect of risk management, and a growing number of companies are now reporting regularly on their CR targets and performance, helped by the concept of "materiality", and obtaining independent third-party assurance to verify the integrity of their performance. This is bridging the disclosure gap between information in the public domain and unreported risk management activities.

Investors are showing growing consensus that improved understanding of companies' corporate governance practices and manage-

ment of CR risks, alongside traditional financial metrics, provides the most credible basis for valuation of a company. The Dow Jones Sustainability Japan 40 Index and the S&P ESG India index are two examples of country-specific tradable indices in Asia. These new indices comprise the best performing stocks measured by environmental, social and governance (ESG) parameters for investors to trade.

CR performance is seen as a proxy for broader corporate management; a strong, strategic approach to CR generally reflects a responsible approach to risk and opportunities. Even sell-side analysts — with their focus primarily on the short term — are showing significant interest in finding ways to estimate the materiality of corporate governance and responsibility issues to equity pricing.

Although there is no single universal definition of CR, it is often spoken of as a commitment to a set of values that recognise the role of business in building a better society. The challenge for companies is how to move from commitment to practice.

For companies who are considered sustainability leaders, they regard CR as a strategic asset that contributes to the company's financial success through improved management of intangible assets, such as reputation, brand, people, relationships, organisational efficiency and innovation.

In their experience, CR risk management helps to build a competitive advantage by attracting investors, protect and leverage intangible assets, strengthen the company's market position and stimulate long-term profitability. Good examples of companies who have successfully applied CR as part of their business approach are the MTR Corp (Hong Kong), Novo Nordisk (Denmark), Staples Corp (US), IKEA (Sweden) and Unilever (UK/Netherlands).

In today's turbulent and recessionary markets, it is not easy to predict how investors will react. The integrity of a company's CR performance and communication could be a critical determinant in who emerges first from a global economic downturn with its corporate reputation and social licence to operate intact.

Integrity built on strong corporate governance, economic viability and social and environmental responsibility will help these companies navigate the challenges of a complex business landscape. They know that profitability and responsibility are not trade-offs but mutually reinforcing — and increasingly considered a business imperative. **E**

Helena Barton is a social anthropologist who specialises in advancing corporate responsibility strategies, communication and management systems. She is also service area manager for Det Norske Veritas Global CR Services.