

The Business of Business is No Longer Just Business



The-Panelists,-from-left-to-right-Messrs.-Chandima-Gunawardena,-Riyaz-Mihular,-Ranjit-Fernando,-J-D-Bandaranayake,-Amal-Cabraal-&-Kishu-Gomes

The fourth module- “Effectively Dealing with Contemporary Board Issues”- of a, so far very successful and well attended, six module series on Corporate Stewardship and Boardroom Governance conducted by the Sri Lanka Institute of Directors was held in the Ivy Room of the Cinnamon Grand on the 22 April 2010.

The Panel which was ably led by Mr. Ranjith Fernando, former CEO & Director of the National Development Bank PLC comprised of Messrs J.D. Bandaranayake Chairman of Ceylon Tobacco Company PLC and now the Chairman of the Board of Investment, Reyaz Mihular Partner, Head of IFRS, KPMG Ford Rhodes Thornton & Co, Amal Cabraal Chairman Unilever Sri Lanka Ltd, Chandima Gunawardena, Director, Carson Cumberbatch PLC and Kishu Gomes MD and CEO of Chevron Lubricants Lanka PLC.



Panelists-Messrs.-Chandima-Gunawardena,-Riyaz-Mihular-&-Ranjit-Fernando.

Introducing the session, Mr. Fernando stated that Boards have to move from their normal and standard emphasis on strategy, business plans, compliance and risk etcetera to sufficient focus on issues such as conservation/protection of the environment, sustainable development and responsibility to the public and society at large. Many corporates have, indeed, moved from a pure shareholder oriented operating model to a currently more relevant stakeholder oriented operating model where the attainment of business goals and the business attractiveness depends on how well it satisfies all its stakeholders ranging from customers, suppliers, employees, government and society to its shareholders.

Mr. Mihular joining the discussion said that not so long ago, possibly, the only objective of a board was to create maximum value for its shareholders. It was a similar situation for external auditors also in that their responsibility was to the shareholders. We were not overly concerned about the public perception. It is no longer the case. The auditors have to take a more holistic, and inclusive, view. We have to constantly define, and redefine, regularly the segments we serve. Just take a few examples from a management viewpoint. The way we treat and motivate our employees; - the way we build supplier relationships. Fewer are the instances when accountants deliberately delayed supplier payments in order to improve the working capital; - there is deliberate emphasis on delighting the customer through good products and the right service; - We are very conscious of the impacts of our actions on the environment and we have to be compliant with the applicable regulations. Even a private company has to be mindful of all this, because it is no longer a pure shareholder oriented world. Private companies also wish to achieve a “most respected” tag unlike in the past where it was thought that “the business of a private company was private.” The point to be made is that any business has to be equally conscious of both the internal and external influences. The public now talk about issues such as the ‘employer of choice’, the corporate social responsibility, brand leaders et cetera. Triple bottom lines have replaced the single “profit” centered bottom-line. A lot of this depends on the tone from the top... and that comes from the Board, the Chairman and/or the CEO. There is no denying that Board involvement in setting the policy on these these matters is a must if companies are to succeed in satisfying all its stakeholders.

On asked by Mr Fernando on how far does a company go about in justifying its corporate social responsibility obligations and who the beneficiaries of such actions are;- Mr Bandaranayake said that corporate social responsibility (CSR) is often referred to by many names, like Corporate Citizenship, Responsible Business, Corporate Social Performance, Sustainable Business and so on. Notwithstanding this, the definition he favoured is that CSR is a deliberate inclusion of public interest into corporate decision making in honouring the triple bottom line, which is people, planet or environment and profit. He added that CSR extends well beyond traditional boundaries in realising returns which are very different to the pure financial based indicators which many of us use as our yardstick of business effectiveness. It is a form of corporate regulation integrated into a business model and holds the business accountable for the impact of its actions on the environment, consumers, employees, communities and all of the members of the public sphere. The critics say that the primary role of the business should be the economic function it performs and that business should not get distracted by the social good which it is trying to pursue and that business must confine itself to a fundamental economic role

where it generates surpluses which the government taps into, in the form of taxes and use such taxes in satisfying the social needs of the community. There are then the cynics who say that CSR in the private sector is just a window dressing to cover up other sins perhaps. When asked by Mr Fernando about CSR at Ceylon Tobacco Company (CTC) Mr Bandaranayake stated that CTC has a very rich CSR history all along because of its long involvement with rural communities. CTC's involvement in CSR stems from that fundamental point in that CTC manages a huge livelihood development programme involving 10,000 families across many districts and now focusing on the North & East. This fact is not even in the public domain. CTC's sustainable development initiative stems from the need for people who have the capability, the resources, and the ability to contribute in some way for the betterment of society. He added that well thought out sustainability programmes of the private sector will contribute towards lessening the expectations of society on government. This he thought was something worth reflecting on.

Responding to remarks by Mr Fernando who questioned whether there was a linkage between the sustainability which is often referred to in both business and non business circles and the general corporate belief that businesses must be sustainable, Mr Goonewardena stated that contrary to the general belief the sustainability was just a matter for big business only, sustainability applied to all businesses irrespective of size. Sustainability is an important aspect when it comes to evaluating the future of your organization. He said that from the several interpretations of sustainability, the one that appealed to him most was "sustainability is to ensure that your business actions of today do not limit, or impede, the social, economic and environmental options available in the future." Basically we are linking up our actions today to something that is going to happen in the future. In developing a sustainability model, the Board must ensure that the sensitivities of the stakeholders are considered and addressed in strategic planning. The Board must first identify the key stakeholders of the subject business and establish the current, and emerging, roles, related issues and the concerns of such identified stakeholders. They need to then formulate short and long term action plans that address these issues and concerns. If this not done proactively, businesses may have to compromise on alternatives if quick action becomes an absolute necessity. He cited the example in Indonesia where villagers who had no idea of the stakeholder concept and were initially hostile were won over because of company actions in creating employment, building schools and providing electricity and now work with the company on a relationship of mutual benefit. The concept is simple; - the company must understand what its obligations are to the stakeholder and similarly the stakeholders must understand their obligations to the company. This is the pre-requisite for the existence of effective sustainability.



Panelists-Mr.-Amal-Cabraal-&-Mr.Kishu-Gomes

Mr Cabraal, on being asked his views on voluntary versus forced compliance with environment laws etcetera stated that a board's primary task is sustaining success for the business. In the past they would have defined success as creating value or generating profits. However, today we are defining success in the format of the triple bottom line which is people, profit and the planet. Therefore, there is no escape for the board, if it wants to sustain success in the manner that is defined in the modern world. The board has to then charge the management with ensuring that all aspects of success are addressed and give the management some metrics to meet or beat. It is absolutely essential that corporates do not look at the new demands of the world as burdens. I would argue that they should look at the new demands in a positive outlook and try and make them competitive advantages as opposed to seeing them as burdens imposed by either regulators or the general public, interested groups and so on. So what should corporates be doing voluntarily and what should they be doing as a part of regulation and so on. He referred to a manufacturing organization as an example where he noted there were four areas of impact. Firstly, in the sourcing of its raw and packaging material; - the question being "Is the source sustainable?" The next is energy and green house gases that it may be emanating and thereby polluting the environment. Thirdly; what is the extent of water used both in terms of manufacture of the product and in terms of use of the product. Fourthly; - what waste is created by the organization. To illustrate his point he gave a Unilever example. Unilever is one of the world's largest consumers of palm oil. As we all know palm oil grows in very large plantations in Indonesia, Malaysia and in areas 7 degrees North and South of the equator across the globe. To grow palm oil you need a lot of acreage of good forest land and lots of water, these being two scarce resources. To expand the palm oil plantation, you have to cut down the forest and burn the debris and these create a negative ripple effect on the environment. It is this light that Unilever has announced that by 2015, 100 per cent of Unilever's palm oil sourcing will be from plantations which practice sustainable development. So if suppliers practice sustainable development voluntarily, they will find that more often than not the world at large will

reward them for their efforts. This he said was the competitive advantage he referred to earlier. He also gave examples of what Unilever was doing in addressing green house gasses, water usage and in managing waste. He said that it is the Board which must ensure that management sets goals and work towards them because if they do it well they will invariably secure a competitive advantage for the company.

On being invited by Mr Fernando to give his views on what had been discussed from a Sri Lankan context, Mr Gomes stated that it was necessary to accept the ground reality. He noted that there was no denying the importance of sustainable development. He suspected that research/surveys will indicate that Sri Lanka is somewhere at the bottom, relative to the rest of the world. Whilst there are many companies just window dressing, there are the few others who are really serious about this stakeholder model and have started doing things right. He added that it was important for us to accept that in our current environment it was impossible to take a 10 to 15 year view horizon and we wouldn't know if the world would even exist for that long!!!! The dilemma the board of directors has today is to manage the balance between the short term and long term results. And this is no easy task. Conceptually it is simple...but in terms of action it is a tedious task. So this is where the issue is. Most businesses today are focusing on achieving short term results. In the recent past there are numerous examples of companies that have got into hot water simply because of its bottom line focus and their disregard of corporate social responsibilities. Most organisations today have ignored the environmental and social responsibilities. If you look around you will see that most companies don't spend enough to sustain the society and the environment. In reality what some of us are doing is mortgaging the future for short term gains. Surely, this is not the right thing to do. As directors we have a moral and professional obligation in ensuring that we create value for all our stakeholders and not merely for our shareholders. The question is; - do we as directors want to be proactive and take the lead and make it happen or do we want to be reactive. He said that it was important to recognize the impediments. Most shareholders, for example, have no loyalty towards the organization in which they own shares. They just want very short term results. They buy the share today and want the capital gains tomorrow or they want a quick dividend. This is the kind of mindset they have. We encounter them at AGMs and other types of fora. As directors, we have an important role to play in sensitizing our shareholders on the importance and current relevance of the stakeholder model and the need to resist the temptation to chase short term goals at the expense of the long term goals. Sustainability is the keyword. Mr Gomes also commented on the negative behaviours encouraged by bodies who rank the performance of companies in Sri Lanka based on just on bottom line growth, the profit per employee growth, the absolute profit growth etcetera. He questioned; "where is the recognition of sustainable development?"



Mr.-Ranjith-Fernando,-Mr.-Riyaz-Mihular-&-Mr.-J-D-Bandaranayake-in-action-during-the-discussion

Mr Fernando then drew the panel’s attention to the fair treatment of minority shareholders as an important stakeholder and asked Mr Mihular to comment on it. In response, Mr Mihular stated that a minority shareholder is now recognized as an important stakeholder and there is a need to look beyond the majority shareholders. It is in partial recognition of this, that we now have mandated percentage representation of independent directors on listed company boards and a demand for a certain balance between executive and non executive directors. We also have legislation which forces all companies to declare a dividend if certain criteria are met and this too is a step in protecting the minority shareholder. The point to note is that if we don’t take the requisite proactive steps in addressing the issues and concerns of our stakeholders, including the minority shareholders, the law will do it for us.

On the whole, the panelists and the challenger, Mr Ranjit Fernando, who handled the session with aplomb, agreed that it was essential for Boards to spend considerable time in discussing matters of sustainable development because they were taking a dimension that was much greater than the mere bottom-line and other traditional performance indicators.

Module 5 of the series, “ **A Functioning Remuneration Committee**” will be held on the 20 May 2010 in the Cedar Room of the Cinnamon Grand at 1630. The session will be chaired by Mr Franklyn Amerasinghe and the panel will consist of Messrs Nihal Fonseka, Dinesh Weerakkody, S Skandakumar, K Kanageeswaran and Eran Wickreematne. This is a session not to be missed.