Apple's launch last month of its iPhone 5 drew a mostly positive reaction. The latest incarnation of the iconic device is bigger, faster, thinner and better connected, the critics responded. But, as some asked, is it more socially responsible?

Sustainability, and corporate social governance as a whole, came to the fore last year with reports that iPhones, as well as other Apple products and those of Amazon, Dell and HP, were made in substandard conditions by overworked and underpaid Chinese labourers who, in some cases, apparently only escaped ill-treatment through suicide.

In the case of Apple, the outcry resulted in damaging protests from New York to London to Sydney that called for better protection for workers. They snowballed into broader criticism of Apple’s social record: poorly managed use of toxic chemicals, an absence of emissions and other environmental targets and generally lax sustainability-related reporting.

Apple defended its supply chain record, with Tim Cook, its chief executive, saying Apple caps work weeks at 60 hours, bans child labour, conducts safety inspections and sponsors educational programmes. Cook added that the Fair Labour Association, a non-profit monitoring organization, would start audits of Apple’s suppliers, including Foxconn factories in Shenzhen and Chengdu.

Over the years, sustainability has been pushed up the agenda of policymakers and corporations around the world. Shareholders, employees, consumers and regulators are increasingly letting companies know the standards of corporate behaviour they expect.

“The key [environmental, social and governance] issues that investors in Asia face are tightening environmental standards and labour unrest,” Amar Gill, head of Asia research at CLSA, and his team wrote in CG Watch, a corporate governance report issued last month.

CLSA, a brokerage that says it strives to provide visibility on sustainable and ethical investing, notes that in Asia there are three drivers for better enforcement of environmental, social and governance issues: rightful resistance (by employees, activists and other stakeholders), supply-chain naming and shaming, and shareholder activism.

“International companies take [sustainability] very seriously because they are scared of the liability,” says Peter Wong, chairman of The General Fiduciary Co., an investment and trustee company based in Hong Kong, and a member of the Hong Kong Institute of CPAs. “It is also increasingly necessary to show outwardly that a company is fit for purpose.”
VALUE ON ABILITY
Workplace quality
This area covers working conditions; health and safety; development and training; and labour standards policies. It can include information related to compensation and benefits; recruitment, promotion and dismissal policies; working hours and rest periods; diversity and welfare information.

Environmental protection
The broad category of environment could include the use of resources, waste and emissions such as greenhouse gases (carbon dioxide, methane); generation and disposal of hazardous materials, water strategy and conservation; minimizing impact on community and surrounding areas.

Operating practices
This category includes supply chain management; product quality standards and monitoring; consumer protection, complaint and redress systems; advertising, packaging and labelling practices; data privacy issues, anti-corruption efforts and intellectual property policies.

Community involvement
Important community issues include direct involvement such as local investment; contributions of cash, time, space or labour to community projects covering education, health, culture, sport or other fields; general community engagement; visibility, accessibility and responsiveness to stakeholder concern.

Key performance indicators affecting these four areas could include (1) employee demography and turnover; (2) emissions quantities and mitigation strategies; (3) supply-chain evaluation techniques and customer feedback; (4) community contributions measured by money, time or other involvement.

Source: Hong Kong Exchanges and Clearing
Making a start

Here in Hong Kong, companies generally have a mixed record on sustainability reporting. But Hong Kong Exchanges and Clearing hopes to change this after publishing its environmental, social and governance reporting guide this year. The guide covers four areas – workplace quality, environmental protection, operating practices and community involvement – as well as general disclosure and key performance indicator recommendations.

“Our guidelines are for the ‘everyman company,’” says Mark Dickens, head of listings at HKEx. “It’s a recommended practice, not best practice,” he adds, saying that the aim is to encourage beginners to make a start, while other companies can apply the higher standards. HKEx encourages issuers with a financial year ending after 31 December to implement the rules.

The rationale behind this is to accommodate the wide divergence in existing behaviour. Some larger companies have been undertaking increasingly sophisticated sustainability reporting for over a decade and even dabbling with integrated reporting, yet there are many – indeed the majority – who have still to get off the starting blocks.

One of the most widely used sets of sustainability standards is from the Global Reporting Initiative, an Amsterdam-based non-profit organization that promotes economic, environmental and social sustainability. The organization offers several reporting frameworks for various industries.

Another set of standards is issued by the United Nations Global Compact, headquartered in New York, which held its China-Japan-Korea roundtable in Seoul last month to discuss value chain management in the context of sustainable development.

The Asia Pacific tends to be behind the curve in sustainability reporting, though requirements in Hong Kong are expected to be stiffer within a few years. For example, the HKEx guide is only a recommended practice now, but by 2015 the intent is to develop it into “comply or explain” requirements. “This means you have to say why you are not doing it,” says Dickens. “Peer group pressure can be very powerful in relation to the corporate governance code.”

Hugh Gozzard, an enterprise risk services principal at Deloitte Touche Tohmatsu and an Institute member, agrees with Dickens that peer pressure is important. “If you do not take up environmental, social and governance reporting, then you are going to look progressively worse as more of your peers adopt it.”

Some Institute members question whether HKEx could do more to get locally listed companies to change their reporting practices. “It is very mild,” Wong at The General Fiduciary Co. says of the exchange’s requirements. “[They are saying] we encourage you to do it, meaning… you can if you want to.”

The Institute supports the HKEx efforts. “Hong Kong needs to step up to prove it has the same commitment to sustainability as its competitors,” says Chris Joy, the Institute’s executive director. “We are very pleased the exchange took this initiative.”

Joy points out that many areas come under the sustainability umbrella such as environmental, social and governance; corporate social responsibility; and integrated reporting. Whatever the terminology used, he adds, the starting point is to get management to understand the business benefits. “It is not an easy first step. You need to structure your business models around sustainability.”

Arguably, local companies are only taking their lead – or lack of – from the Hong Kong government, which has a history of dragging its feet when it comes to legislating good corporate behaviour. For instance, Hong Kong has for years remained one of the few international jurisdictions without a competition law, although one is due to be effective from next year.

“There is very little appreciation of sustainability and generally less public pressure to act, even though it’s happening all over the world,” says Wong. “When it comes to pollution most people just hold their noses,” he adds. “People are more worried about paying more for the buses.”

Potential confusion

One hurdle to moving ahead is the considerable knowledge gap over what to measure and report. Experts say there is often confusion over what should be included.

A distinguishing feature of sustainability is it must be an activity that is directly related to reducing risk. “It has to be seen as part of the strategy of the business where you identify value and not just public relations,” says Gozzard. “If it isn’t, the danger is it can be seen as green-washing or propaganda.”

Jeanne Ng, director of environmental affairs at CLP, says there has to be a business case for acts of sustainability. “It is not just to make us feel good.” She distinguishes sustainability acts from corporate philanthropy, which is an act of doing good where nothing is expected in return. “If we are, say, building hospitals, it is because we are looking at managing our commercial and social risks.” To CLP, building a hospital counts as sustainability rather than philanthropy because it reduces social risks by developing a strong link with the community.

Sustainability is still an area of considerable experimentation, competing standards and varying degrees of sophistication. Yet the advice is that getting started is important. “HKEx recognizes that small companies have limited resources and are usually stretched at senior management levels, which is why we have given them three years,” says Dickens. “They can also pick and mix on indicators, while at the same time we are providing seminars and training to get them up the learning curve.”

The implementation of environmental, social and governance reporting should not daunt companies, experts say. According to Gozzard, the key is to get buy-in from management, who need to see the long-term value. Benefits include not just risk reduction, but also attracting better talent, a better image, better funding and a more favourable relationship with suppliers.

In the decade since CLP began working on sustainability it has become much more

Some larger companies have been undertaking increasingly sophisticated sustainability reporting for over a decade... yet there are many who have still to get off the starting blocks.
systematic, says Ng. “We have built up a system for reporting environmental, social and governance data in a more systematic way.”

This, she says, prepared CLP for the next step of integrated reporting, which combines a sustainability report and annual report, leading to new challenges.

“You have to find key performance indicators that are not only material but robust enough to go in the annual report. For sustainability data to be included in the annual report, [it] will need to go through the audit committee before ultimately being signed off by senior management.”

The worry for many, however, is that environmental, social and governance reporting sounds as if it adds another burden to time-pressed companies. In the profession, there is also a wider debate about whether improving the quality of general financial reporting is a more pressing need.

A further complaint is that companies are too busy focusing on survival, or simply keeping up with recently introduced accelerated reporting schedules required by the exchange, to worry about environmental, social and governance reporting.

This is a misunderstanding, says Paul Druckman, chief executive officer of the International Integrated Reporting Council, a global body that encourages companies to integrate strategy, governance, environmental and economic context into financial reports.

Druckman says the aim is that rather than being primarily an exercise in compliance, an integrated report should be the real company story, including not just sustainability but also other factors such as intellectual assets and human capital.

“While environmental, social and governance reporting is additional disclosure, integrated reporting is an evolution not an addition,” says Druckman, who will be a keynote speaker at the Institute’s conference on 27 October, which will focus on both sustainability and the future of the profession.

One encouraging sign is that more companies see the value of obtaining a high rank on indices that measure environmental, social and governance reporting. These include the HSI sustainability index in Hong Kong, which is provided by RepuTex, an advisory firm that specializes in sustainability risk analysis and rates 636 Hong Kong and mainland-listed companies.

The biggest question, perhaps, is whether companies will get rewarded for their extra reporting efforts. Dickens says this type of reporting is becoming more important to investors. “It is not of course as important as a profit warning but it will affect confidence in companies and in the market.”

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