BALANCING PROFITS AND RESPONSIBILITY

When the 17 Sustainable Development Goals (SDGs) and the 169 targets were launched, the message was clear to all stakeholders of the world – governments, regulators, companies, and populations – we need to do more to protect the world for future generations. So where are we now, and how are companies reacting to this brave new world?

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Since the SDGs were launched in 2015, companies have taken a more serious look at the impacts of their businesses on society. If we look at global figures from the United Nations Global Compact (www.unglobalcompact.org/interactive/sdgs/global), 6,839 companies are now reporting on activities to advance decent work and economic growth (SDG 8), which is the highest level of reporting of all 17 goals. Whereas less than half that number (3,234) are reporting on activities that advance sustainable cities and communities (SDG 11). While differences will continue to exist, depending on the nature of the business and its impact on society, it is clear that more can be done.

So what is holding some companies back? After all, we are all fundamentally interested in creating a more sustainable world to ensure the future of the human race in a way that is fair and does not provide benefits to one group at the expense of others. It cannot be right for one nation to pump out greenhouse gases, through coal-fired power stations for example, to develop its economy more quickly than another that is developing and using biofuels, which may in the short-term be more costly. Similarly, on the social side, it is not right for one nation to have no protections for workers, thus making it cheaper for multinationals to source from, whereas other nations have strict minimum wage levels and advanced health and safety regulations.

This, of course, is the responsibility of both governments and businesses. Governments must be free from corruption and put in place regulations to promote a more sustainable society, while businesses have to accept their responsibilities to act more responsibly. It is fine for businesses to source the cheapest and best-quality supplies from around the world. However, it is not acceptable if those supplies are the cheapest because workers are being treated poorly, paid minimal wages, and the factory has poor safety standards.

In today's increasingly transparent society, businesses can no longer hide behind the excuse that they did not know. They have the resources to know — it becomes a question of priorities.

Can profit and responsibility mix?

For many in the business world, there appears to be a conundrum: How can it be more profitable to act responsibly and potentially accept more expensive supplies? At Mazars, what we have seen is that companies which have made meaningful progress in this area are more profitable. We have heard comments such as "Now that we have a proper dialogue with our suppliers, we better understand their needs and their limitations," and "Since we have started engaging much more with our suppliers, there has been an increase in the quality of the supplies and fewer returns, which has led us to be more profitable."

Mazars, together with Shift — the leading nonprofit for the UN Guiding Principles on Business and Human Rights (UNGPs) — created the UNGP Reporting Framework (www.mazars.com/Home/Business.-For-Good/Human-Rights). This initiative was introduced as a multistakeholder project that engaged with more than 200 different organizations: governments, regulators, multinational businesses, civil society actors, and professional advisers. From those conversations, there emerged a consistent theme: the value of respecting people's needs to be embedded across the whole organization. If it is seen as only a compliance matter, it remains a cost and little value is achieved. Acting responsibly as well as respecting people and the environment needs to be built into the broader business model. The costs then become an investment and, as with all investments, KPIs can be identified so that policies and processes can be managed and controlled.

Now the issue becomes one of how to begin the process. As identified in the UNGP Reporting Framework, the starting point needs to be the identification of those issues that are most salient, that is, where people have the risk of being severely and negatively impacted by the activities of an organization.

Although the UNGP Reporting Framework predominantly addresses sustainability through a human rights lens, there is every reason for businesses to address environmental issues in the same way, that is, address risks to the environment, especially because certain environmental issues also impact human rights. >>

For example, water is the most vital nutrient in our world and plays a major role in health and sanitation issues. The lack of clean water also impacts gender inequality, as a disproportionate number of women have the burden of traveling long distances to collect clean water. Among other things, it has been a critical resource used as a cleaning material for industrial processes, as a cooling fluid for the energy industry, as well as a nutrient for agricultural operations. At the end of all these processes, there are discharges in natural waterways, which affect the environment and potentially create liabilities. There is also mounting pressure for greater water efficiency to reduce pressure on the global demand for water, which is largely in line with SDG 12. In light of all these factors, even though it is largely absent in non-financial reporting, water is becoming a very important topic for board members and investors alike – whether it is as a risk or opportunity. Without a proper understanding of a company's operational dependence on water – or of its suppliers' dependence on water sources – companies are at risk of destroying value for shareholders and exposing themselves to major reputational risks (www.mazars.com/Home/News/Latest-News3/Global-Water-Risk-Survey).

In terms of an SDG lens, it is important to take into account that an organization is not initially looking at risk to the business, but to the external factors of people and the environment. Those risks that are most salient will converge back as material to the business – it is these risks and these related SDGs where businesses should start to create value sustainably. For example, if an organization is in the extractive or manufacturing industry, then the lack of a living wage is a key risk that aligns with SDG 1 (no poverty). If the business is in financial services, then diversity and social mobility may be key risks, which align with SDG 5 (gender equality) and SDG 10 (reduced inequalities). Whereas if an organization is in the drinks business or garment manufacturing, the risk of polluted water or water scarcity are two key risks, which align with SDG 6 (clean water and sanitation).

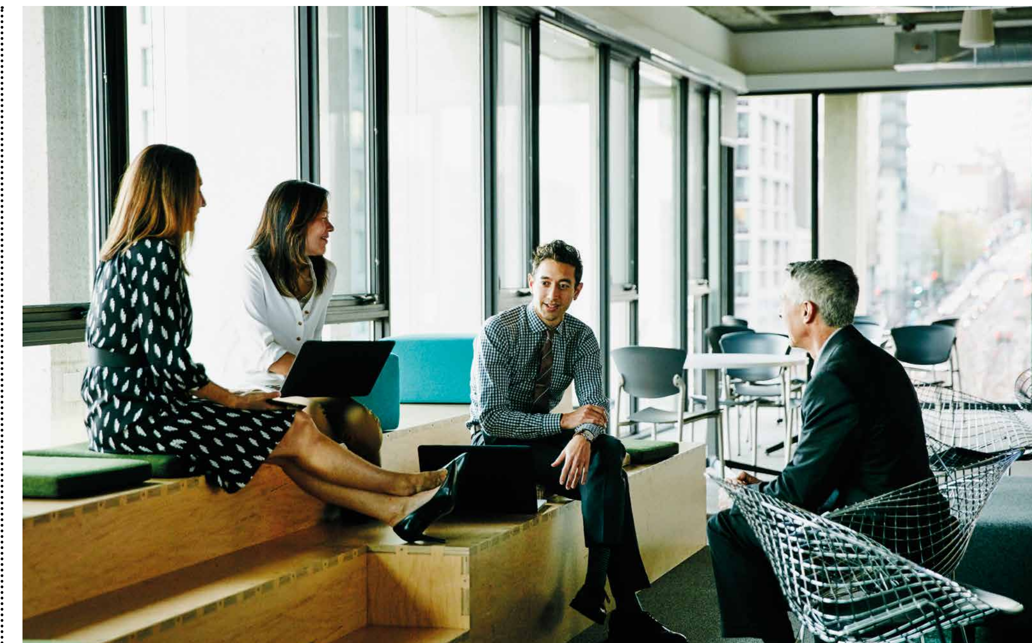
However, very few companies expressly demonstrate how producing less pollution, recycling waste, or manufacturing more with less enhances profitability. In addressing the SDGs, there is a risk that businesses will simply repackage what they are already doing and align their reporting with specific goals without actually introducing anything new. Alternatively, they may select a few SDGs that they think are the easiest to address while missing the SDGs with the greatest impacts. This would be a pity and misses the point of the SDGs.

The impact of regulation

Regulation could have a greater role to play. Regulators could expressly demand that companies not only set out the results of sustainable actions, but also how they are doing it. Given that, on average, 80 percent of the market value of public companies resides in intangibles and is not audited – as is the case with the financial part of the annual report – this non-financial information could be independently audited. This would provide greater confidence in the credibility of what is being disclosed.

Today, countries are at different levels of regulatory maturity in terms of sustainability and human rights development. In France, for example, there is the "Loi Sapin," which obliges companies to put in place measures in line with the various CSR pillars. Another is the "Loi sur le devoir de vigilance," which addresses the whole group and its first-tier suppliers and is focused on human rights, the environment, and the health and safety of workers. In addition, the issue of human rights in Europe has taken on a new meaning with the EU directive on the disclosure of non-financial and diversity information.

In terms of the overall effect of regulation, we have seen companies start to take greater ownership of the subject. As a result, more companies are beginning to understand what they do not know and are looking for support from firms such as Mazars to help them address and embed their CSR strategies. This may include issues such as the identification of actual and potential material impacts on people and the environment; how risk areas have been identified; and whether they are being assessed and monitored. We have observed that CSR has moved from a purely compliance exercise to companies looking to derive greater value through the measurement of performance indicators and indexes. This allows companies to better understand and manage the effectiveness of their processes and track their performance, giving them the confidence to integrate CSR into their broader business strategies.



Companies are also looking at specific compliance issues such as: How do I ensure that my value chain is secure? How do we manage risks? How do we demonstrate meaningfully – given everything that we already do – that we are in compliance with regulations?

While the debate continues on whether the regulatory or voluntary approach is better, the reality is that they are mutually reinforcing. For example, in a country where regulations are mainly followed on a voluntary basis, we see that companies which do not initially participate eventually do because of reputational perceptions.

Using SDGs to add value

As noted earlier in this article, companies are slowly but surely beginning to report on the SDGs that represent the risks most salient to their business activities. At Mazars, we have been playing our part by helping companies create greater value for all by being more sustainable – be that educating global boards, identifying the risks on which to focus, implementing new processes, or providing assurance on non-financial reporting.

With increased levels of regulation and consumer awareness – and with the SDGs and a plethora of voluntary guidance – there is only one direction in which to travel. The sooner a business starts to address its sustainability footprint by building it into the culture of the organization, the greater its chances of longer-term profitability, together with the knowledge that it is playing its proper part within society. ■

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