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THEMATIC

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Insight

Responsible business post-Covid 19

Today, businesses are shaken up by Covid-19. The pandemic has amplified the demand for companies to address complex supply chains and become more transparent. And the growing focus now is on how businesses are responding to this pandemic.

There are growing environmental, political and social pressures for the world to find a more sustainable and responsible path towards development. Organisations are expected not only to apply socially responsible practices but also to become responsible business leaders. More organisations are expected to establish and operate ethical value chains and run their processes with integrity. In short, it is all about bringing renewed attention to the importance of corporate transparency on sustainability issues.

This is somewhat akin to the 1966 World Cup. Brazil, although the winner of the previous two tournaments, were eliminated in the first round. Sadly, their star player Pelé failed to perform as he was fouled frequently and flagrantly. It was a point in time many felt the glory days of Brazil are over.

But four years later, Brazil won the World Cup. This time with grace and style. The 1970 team is still widely regarded not only as the best team but also the most beautiful team with a unique attacking style. And Pelé was named player of the tournament. The question is how did Brazil turn around after one World Cup? The answer is innovation by building a cohesive team and it required leadership, both in management and on the field.

Since the pandemic has raised the need for businesses to address complex supply chains and become more transparent, the growing focus now is on how businesses are responding to this pandemic. The emphasis is on board composition and quality, environmental risks and opportunities, corporate strategy and capital allocation, compensation that promotes long-term growth, and human capital management.

In short, it is all about bringing renewed attention to the importance of corporate transparency on sustainability issues. It is time to relook at business models. The model should focus on “sustainability” which then looks at resilience, reforms and reimagination. The 1970 World Cup final should provide some food for thought. Hence, there is a need for companies to understand how they are responding now and how they should respond in the future. Here, there is a need for consistency and completeness besides accountability. Such focus will help provide sustainability against shocks.

While managing Covid-19's immediate impacts will be the top priority for businesses, reporting historical environment, social and governance (ESG) data and performance remains essential. A slight delay of this year's reporting is understandable, yet businesses must still strive for the same level of coverage as previous years and continue to improve their disclosures, moving forward, with the aim of ensuring their performance on key social issues are even more thoroughly examined than usual.

Besides, accountability is vital in this new reality. Reports should provide sustaining account as to how businesses are responding to the pandemic. The degree to which companies do this now or in the future will depend on which part they are in their reporting cycle.

Regardless of which cycle they are in, businesses need to explain decisions made during this time and make forward-looking statements about how they intend to help “build back better” in the future. Numbers must be backed by narratives. The reduction in business operations and travel due to the pandemic virus will likely reduce greenhouse gas emissions and other environmental impacts. Similarly, Covid-19 will impact many other metrics such as diversity, employee engagement and supply chain labour compliance.

Going forward, it will be essential for businesses to provide a narrative that identifies what change in historical performance relates to Covid-19 factors and what change results from previously existing plans – numbers on their own will be impossible for readers to interpret. It will also be important to provide a forward-looking narrative explaining their potential trajectory once Covid-19 is behind us.

While reputation is an important driver of focus, business continuity, economic inclusion and public safety considerations are also critical. Given the growing attention across the board from investors to media, companies will need to increasingly focus on social issues to demonstrate their responsiveness to the top priorities of the day. Collaborations with industry peers to ensure comparable Covid-19 disclosures is vital.

Today, sustainability reporting is more important than it has ever been, and looking forward, it will be critical to understand how Covid-19 may impact sustainability reporting over the long term. To emulate Brazil as the 1970 World Cup champion, businesses need to re-examine the material assessment and its integration into enterprise risk management. There must be a significant increase in connectivity between sustainability and financial reports.

Digitalisation will offer important insights into the real impact of companies and their operations on society and the environment. Technology will help monitor the application of environment, social and governance (ESG) with the aim of investing more into sustainable products.

While the ESG issues that investors were looking at prior to Covid-19 still hold, the pandemic has placed a heightened importance and increased scrutiny on how businesses address the “S” in ESG. The focus is on the treatment towards its employees, suppliers and the communities in which they operate while naming and shaming good and bad actors along the way.

While the Covid-19 pandemic has caused unprecedented disruption, to build back stronger just like the 1970 World Cup champion Brazil did will need a more integrated, comparable and standardised reporting. Such reporting can meet the new information needs brought to light by the pandemic and strengthen business decision-making, risk management processes and overall performance in the long term.

And the question of whether or not the reporting field truly moves forward will depend on the level to which financial and sustainability reporting converges and on whether reporting standards and regulation accelerate this convergence.

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