Corporate Responsibility & ESG Integration

Responsible Management Standard Association

Triple Bottom Lines

The term "triple bottom line" was coined by John Elkington (1977) to define the three pillars of sustainable development (sustainability): people, planet and profit.

The application of triple bottom line by businesses nonprofits and governments are motivated by the principles of economic, environmental and social sustainability. The term "sustainability" refers to the development that meets the needs of the present generation without compromising the ability of future generations to meet their needs (World Commission on Environment and Development, 1987).

Economic sustainability is the ability to support a defined level of economic performance indefinitely.

Environmental sustainability is the ability to maintain rates of renewable resource harvest, and non-renewable resources depletion that can be continued indefinitely.

Social sustainability is the ability to stabilize a social system which can be functioned at a defined level of social well-being indefinitely.

However, there is no universal standard for the measures of the economic, environmental and social sustainability., The application of triple bottom line can vary, as the scope can differ from a country, city and region to a business or a project.

The triple bottom line goes beyond traditional measures of profits, return on investment and shareholder value to include environmental and social dimensions. Sustainability reporting differs from traditional financial reporting framework as it includes ecological (or environmental) and social measures in the financial report. The challenge is to capture the essence of sustainability by measuring the impact of these factors and translating them into financial terms.

The triple bottom line and sustainability have become the core values of businesses, which tie the environmental and social impact of an organization's activities to its economic (financial) performance.

The Stakeholders Approach

The classical view of corporate responsibility is that a corporation's primary purpose is to maximize profits for its shareholders (Friedman, 1962).

By this view, should a firm produce cigarettes, weapons or harmful products in order to maximize or simply earn a profit? Many investors face a greater business risk for losing their investments, due to the ESG issues such as bribery, corruption, pollution, illegal labour and dependent broad members.

The concept "corporate citizenship" is a recognition that a business should not only be responsible towards its shareholders, but also be responsible to other stakeholders including customers, employees, suppliers, regulators and communities. A business has the responsibility to save all the "corporate stakeholders" affected by its business decisions. A corporate stakeholder in any group which is vital to the survival and success of the corporation (Beauchamp and Bowie, 2013)

The stakeholder theory holds that the corporation should be managed for the benefit of all it stakeholders: its customers, suppliers, owners, employees and local communities. The rights of these groups must be ensured, and, further, the group must participate, in some sense, in decisions that substantially affect their welfare (Evan and Freeman, 1991).

The corporate citizenship together with the stakeholder theory outlines the new concept of corporate responsibility ---- total responsibility. For the best interests of all stakeholders, a business should have the following responsibilities:

- Product responsibility
- Environmental responsibility
- Social responsibility
- Governance responsibility
- Human responsibility
- Legal responsibility
- Financial responsibility
- Supply chain responsibility
- Brand responsibility

An Integrated Approach

ESG is a term need by the capital provides (asset managers and investors) to evaluate the risk-adjusted returns of portfolios, in their recognition of the critical importance of ESG factors towards the long-term performance of the companies in which they invest.

CSR is a form of self-regulation initiative to ensure a company's action which has the position impact on the stakeholders, communities and the environment, based on the strategic thinking of business ethics.

From the perspective of investment value chain, companies are usually on the sell-side while capital providers are on the buy-side of portfolios. Therefore, capital providers are in a much more powerful position to screen out the companies that have high ESG risk or poor ESG performance.

It is anticipated that the term "CSR" will be replaced by "ESG" in the future due to the following reasons:

A. Governments and stock exchanges around the world are demanding ESG reporting from a voluntary basis to semi-regulatory requirements.

B. ESG reports, ESG evaluation, ESG ratings and ESG indexes are available in the financial market by major providers such as Bloomberg, MSCI and Thomson Reuters.

C. The link between ESG factors and investment performance was formalized by the PRI, the Equator Principles, and Performance Standards of the International Finance Corporation (IFC).

D. The CSR reports or sustainability reports will be replaced by ESG reports, because it makes no sense to prepare two types of non-financial reports.

E. ESG is a more specific terminology that can be applied in any context of decision-making in business, because it implies risks and opportunities.

Under the framework of responsible management, RMSA takes an integrated approach for Responsible management system, measurement, auditing and reporting.

The ISO 26000, UN Global Compact Corporate Citizenship, Triple Bottom Line, Stakeholder Theory and Principle for Responsible Investment (PRI) have laid down the principles of Responsible Management:

- CR8001 ESG Management Standard provides the guidance to implement the Responsible management system to comply with the Principles of Responsible Management.
- ESG integration is a top-down management approach to align ESG criteria with the corporate strategy and operations, by taking full advantage of ESG risks and opportunities for competitive advantage.