

Corporate responsibility and the language of banking

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It is certainly a challenge to arrive at a universally acceptable definition of “corporate responsibility” and prima facie equally as challenging for banks to consistently apply that definition in their day to day business activities. Nevertheless, it is imperative that banks meet these challenges by clearly defining what corporate responsibility means to them and how they can relate to the concept and endorse it as an underlying principle for the conduct of their business.

CORPORATE RESPONSIBILITY - WORDS AND ACTIONS

Actions do indeed speak louder than words. Yet, defining and endorsing corporate responsibility is the first step and a pre-requisite to implementation because words can facilitate actions. It is arguably both a plausible and laudable aim for the term corporate responsibility to have an important place in the language of global banking and financial policy, alongside such terms as profit and loss, valuation multiples and credit ratings. If banks begin to incorporate the term into their language of business, they may better understand what corporate responsibility entails, which will help them to communicate it to other banks and ultimately to act in accordance with their words.

RATIONALITY IN CORPORATE GOVERNANCE AND RESPONSIBILITY

Corporate scandals in recent years have focused attention on corporate governance and reinforced the perception that “good corporate governance” reflects a generally well managed company, and rewards companies with a share price premium. It can be argued that a similar perception should apply to companies that exhibit “good corporate responsibility”. A priori, companies that do so arguably better understand the wider environment in which they operate and pursue a symbiotic relationship therewith. Such an approach increases the prospects of long term success for a company, akin to environmental adaptation and survival in a process of competitive evolution.

One changing aspect of that environment which should be emphasised is the globalisation of the world economy and the perceived move towards minimal government, with the private sector (especially a multinational enterprise) increasingly under scrutiny as to

how it impacts society. Expectations may rise that the private sector should take over some of the responsibilities that were formerly attributed to national governments. Those companies that do not carefully consider their impact on the wider environment might be subject to criticism. A relationship between corporate responsibility and “corporate accountability”, by which is meant ensuring that a company is responsible for its actions or inactions, is therefore apparent.

With this in mind, the importance of defining exactly what corporate responsibility means for a company becomes paramount for maintaining what could be regarded as a “franchise” given by society to that company. Corporate responsibility is neither a matter of pure self-interest nor pure altruism but instead a subtle combination of both, which examining a definition of the term will reveal.

DEFINING CORPORATE RESPONSIBILITY

Banks and the business literature often use the term “corporate social responsibility” (CSR) when talking about what has been termed here “corporate responsibility”. Many definitions of the term exist and they are mostly variations on a theme from the definition espoused by the World Business Council for Sustainable Development, which defines CSR as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life”.¹

It is worth making a few points in considering this definition or indeed any definition of corporate responsibility. Corporate responsibility does not need to entail the pursuit of a global utopia, although ultimately the hope would be that, as a consequence, it improves global welfare. It is reasonable to adopt a quite pragmatic approach. For instance, at UBS corporate responsibility means creating sustainable value for shareholders, clients and employees, whilst at the same time preserving the environment and contributing to the development of the communities in which the bank conducts business. The bank also considers two dimensions of corporate responsibility: Responsible corporate behaviour (“doing things good”) and corporate philanthropy (“doing good things”). The latter is an

important feature but should be done in addition to the former and not instead. A bank must first ensure that it has systems and processes in place, which guarantee that its business is conducted responsibly. When this is addressed in a sensible manner, a company can credibly engage in “corporate philanthropy”, e.g. donations to charities or employee volunteering.

In effect, the aim is to conduct business in a manner that is symbiotic with the holistic environment in which the bank operates. The logic is clear and does not require an apology: In order to be able to contribute to the community, the business has to survive in a competitive environment and to prosper. Having pointed the way towards a reasonable definition of corporate responsibility, let us consider how to cultivate it within an organisation.

CULTIVATING CORPORATE RESPONSIBILITY

Once a bank has established a definition of corporate responsibility which it intends to live by, there are some helpful principles which can be applied within the organisation in order to promote the concept. Where appropriate, these will be illustrated by taking examples from the experience of UBS with which the authors are most familiar, noting that the principles are intended to be neither definitive, nor complete guidance.

Obtain senior leadership endorsement and involve stakeholders: At UBS a Corporate Responsibility Committee, which is chaired by the Chairman of the Board of Directors and comprises one other Board Director and senior executives, discusses how best to meet the evolving expectations of the bank’s stakeholders with respect to corporate responsibility. If the Committee concludes that there is a gap which needs to be addressed between what stakeholders expect and the bank’s practice, it suggests appropriate measures to management which is then ultimately responsible for finding solutions.

Employees throughout the organisation are involved as far as possible. A Corporate Responsibility Working Group, which is composed of members from all the business areas of the bank, including functions such as legal, communications, human resources and risk management, helps to drive the agenda of the Corporate Responsibility Committee.

Corporate philanthropy is conducted through various channels and in all locations where the bank is present. The bank donates money and encourages employees to donate and participate in volunteer activities. It also encourages clients to engage in philanthropic ventures through the Optimus Foundation, which

invests donations from clients in a number of programmes and organisations that focus particularly on children and talents, as well as medical and biological research.²

Build on your definition by adopting globally recognised standards: In recent years a number of global initiatives in the area of corporate responsibility have been developed under the auspices of the United Nations.³ The UN Global Compact (the “Compact”) was initiated in 1999 as a UN sponsored platform for encouraging good corporate practice in the areas of human rights, labour and the environment. UBS was one of the first companies to subscribe to this initiative, and to date over 1100 companies globally have followed suit. In a recent survey to assess the impact of the Compact, the majority of those companies sampled who had joined the Compact suggested that it had either initiated or more often catalysed changes in their company.⁴

A commitment to the environment is absolutely integral to corporate responsibility and can be underpinned by a professional environmental management system that is certified according to a recognised standard. These standards have become increasingly global and, in the domain of the environment, the ISO 14000 family of standards are widely recognised. UBS adopted ISO 14001 as part of a formal environmental policy that seeks to identify environmental transaction risks, focus on in-house ecology (e.g., energy consumption, business travel, paper consumption and waste) and encourage environmental awareness with appropriate training. In addition, the bank offers a number of socially responsible investment (SRI) products to both private and institutional investors.

Benchmark performance against the most responsible: Whilst a bank should make every endeavour to meet its own goals for corporate responsibility, it is always possible to learn from competitors both inside and outside of the banking industry. A number of indices are available to help banks in this respect.

The Dow Jones Sustainability Group Indexes (DJSI) tracks the social, environmental and economic performance of companies and the FTSE4Good Index measures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights. Both of these indices provide good examples of how companies can track their performance against peers in the area of corporate responsibility. The indices also act as a discipline and an incentive for companies, since those that fail to meet the criteria of the indices lose their place, and other companies can always strive to enter the indices by improving their performance in the areas under assessment.

Be transparent and make progress: The quality of a bank's financial report is to a large extent determined by the transparency of its accounts, as much as the numbers themselves. If earnings disappoint, significant comfort can be gained from a clear explanation of why and from confidence that the accounts reveal all relevant information. From such a foundation, banks can rebuild their financial health and, with transparent reporting over time, investors can properly judge recovery and performance. Without this transparency investors are left guessing. When it comes down to examining corporate responsibility, banks must adopt a principle of transparency enhanced through regular audits and reporting. In this regard, a clear judgement has to be made as to which indicators are suitable to report, what goals should be attached to those indicators internally and how far a bank should go towards auditing the behaviour of its suppliers, contractors and clients.

Once such a reporting framework is in place, investors and all stakeholders in the wider community can make fair and informed judgements on how a bank is performing in its corporate responsibility and, even more significantly, a bank is better able to reflect on how it can improve. It is important to stress that corporate responsibility requires as much dynamism as does producing the best set of financials, quarter on quarter and year after year.

BANKS AND CORPORATE RESPONSIBILITY

There is then a strong argument that corporate responsibility is important for banks but it is also important to recognise that banks are important for corporate responsibility. In their mobilisation and allocation of capital, banks are absolutely integral to the financial system. They also account for a significant proportion of market capitalisation in the international equity markets. In short, banks are pivotal to economic prosperity and they can, to some extent, help to shape the corporate world into one that is responsible. However, banks

should be cautious of the suggestion that they are accountable not only for their own behaviour, but also for the behaviour of their clients. In effect, banks are faced with the same question here as other companies, namely how and to what extent, can they and do they want to ensure that their suppliers and clients adhere to certain social and environmental standards. This is a very difficult question indeed.

Ultimately, a definition of corporate responsibility can be specific to each bank, although in order for the term to enter the language of banking, any definition should also draw upon common understandings of what corporate responsibility means and entails. Just as there are bonds that range from the plain vanilla type to those containing “bells and whistles”, there are also different shades of corporate responsibility.

There are, however, defining elements of a bond and of corporate responsibility that make them readily identifiable as such. As banks, we must work towards identifying those elements that comprise corporate responsibility and make them a part of our language. It is, of course, possible to practise good corporate responsibility without defining the term at all, but communicating corporate responsibility in the language of banking will enhance its meaning, both in theory and in reality.

Notes:

- ¹ Corporate Social Responsibility. The WBCSD's Journey. World Business Council for Sustainable Development, January 2002.
- ² More information about The Optimus Foundation and UBS's approach towards corporate responsibility can be found at the ubs.com website.
- ³ See also the work of the United Nations Commission on Sustainable Development.
- ⁴ Assessing the Global Compact's Impact. McKinsey&Company, May 2004.

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