

**ASSOCIATION OF CHARTERED ACCOUNTANTS (ACCA) MESRA AWARDS
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SPEECH BY

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A very good morning

Yang Berbahagia Dato' Khalid Ahmad, President of ACCA Malaysia Advisory Committee
Ladies and gentlemen.

First and foremost, I would like to thank ACCA for inviting me to speak on a subject of growing significance in Malaysia. It is indeed a privilege to be able to share some thoughts on the subject with such a distinguished gathering. ACCA deserves to be congratulated for their on-going efforts to hold this annual ceremony that recognises organisations which report and disclose environmental and corporate social responsibility information, raise awareness in corporate transparency issues and encourage the uptake of environment and social reporting.

Corporate social responsibility or CSR in short, is a buzz word which is high on the public agenda. It is therefore timely to focus our attention on the role that corporate citizens can play on the issue of environmental and corporate social reporting. In my address this morning, I would also like to share my views on the way we should move forward to ensure that corporate social responsibility becomes a core component in corporate strategy and the way we conduct our everyday business.

A Take on CSR

CSR is beginning to have a profound effect on the conduct of businesses not only in Malaysia, but across the world. We are already seeing many companies actively pursuing CSR initiatives as they believe in the value good CSR brings such as better access to a growing pool of capital and the ability to attract quality investors.

CSR is a subject that covers a wide spectrum of issues such as business ethics, corporate governance, socially responsible investing, environmental sustainability and community investment. CSR is perhaps best defined as a concept whereby enterprises integrate social and environmental concerns in their business operations and in their interactions with

stakeholders, usually on a voluntary basis. It is also designed to deliver sustainable value to society at large. In addition, CSR supports the Triple Bottom Line reporting which emphasises the economic, social and environmental bottom-line wellness. As you can see, CSR is not about how a company spends money, but it is about how the company makes money!

I am pleased to say that many of our public listed companies have demonstrated greater CSR commitment in the form of enhancing their stakeholder engagements and developing our nation's human capital through scholarships, educational funds and the establishment of major private universities. On the environmental front, efforts are being made by Malaysian companies to protect the environment through responsible forest resource management. These examples of CSR practiced by Malaysian companies should serve as an impetus for them to integrate CSR with their business strategies and organizational culture.

We should not mistake CSR practices as acts of charity or philanthropy when in fact, it should be embraced holistically and practiced across several key dimensions, such as workplace, marketplace, community and environment. Effective adoption of CSR has the twin effects of improving both short term and long term corporate performance. Companies that have embraced CSR have found real and significant competitive advantages in the form of improved financial performance, enhanced reputations, an increased ability to attract and retain quality workforce, more effective risk management and attractiveness to increasingly sophisticated institutional investors. In short, CSR builds tangible business value for companies that have embraced its concepts fully.

It is also important to avoid a legalistic way of thinking when considering CSR. Yes, PLCs are now required to disclose their CSR activities in their annual reports but this should serve as an encouragement for good CSR practices. No doubt, this will set in motion a trend amongst local public listed companies of integrating social obligations in their business operations. More significantly, CSR goes beyond mere compliance to laws and regulation as it is based on volunteerism to a large extent. The agenda for a company must evolve from feedback from its stakeholders simply because there is no "one size fits all" solution to CSR practice.

Socially Responsible Investing (SRI)

Globally, there is an increasing recognition that capital markets will be central to establishing the incentives that drive corporations towards CSR in the future. The power of investors in enhancing CSR is best illustrated by the growing trend of Socially Responsible Investing or

SRI. SRI in its simplest form means investing in companies which are perceived to be sustainable in their business practices. International SRI indices such as FTSE4GOOD; DOW JONES Sustainability Index, JSE SRI Index have emerged to profile companies with good CSR practices. Further, SRI funds are seen as an opportunity to offer a viable source of capital. Good SRI funds should be able to contribute towards social and environmental rewards that go beyond the direct financial return to the investors.

In Malaysia, although the development of SRI funds is in its infancy stage, we have already established a similar portfolio screening process in the form of Shariah-compliant funds. The difference between Shariah-compliant funds and their conventional counterparts is the former follow religious guidance rather than the voluntarily investment in a company which is perceived as socially responsible. Therefore, the principles of responsible investing form important pillars for the Shariah-compliant funds available in the Malaysian market today.

From the perspective of the investors, SRI can be an investment opportunity and a genuine way of adding value and lowering risk in an investment portfolio. SRI investors believe that having a conscience does not mean having to accept lower returns on investments. There is also a fast growing trend for traditional mainstream investors to incorporate non-financial SRI measures such as climate change, human rights, employee performance and community involvement into both risk management and stock valuation analysis. Apart from investors, conventional investments analysts today are looking at these criteria to ensure that potential liabilities are not factored into their valuation. With the acceptance of SRI by the finance community, we can now expect SRI benchmarks to play a key role in raising corporate awareness by prompting companies to re-examine their practices to enable them to pass the SRI screening process.

I believe over time, this global development will translate into greater demands for SRI funds within Malaysia. Much work needs to be done but I hope that the initial steps already undertaken will further encourage companies to combine their bottom line objectives with the needs and concerns of the wider society.

CSR for Malaysian PLCs

On the national front, a significant amount of effort has been put into encouraging the proliferation of CSR into the very fabric of our society. The National Integrity Plan, the Ninth Malaysia Plan, the Capital Market Master Plan and the publications for GLC transformation all reflect various aspects of CSR that our Government wants to see put into action.

For our part, Bursa Malaysia has continuously taken a proactive role in driving the promotion of CSR in the Malaysian business environment. Bursa Malaysia also sees CSR as an extension of corporate governance. Though not exactly two sides of the same coin, CG and CSR do have a lot in common. Ultimately, both corporate governance and corporate social responsibility are about ensuring the sustainability of business through good business practices. While better CG practices address the concerns of shareholders, good CSR on the other hand more often address the concerns of the stakeholders. Both influence business strategy and illustrate elements of accountability, transparency and sustainability. I strongly believe the correlation between CG and CSR creates a realization to which the company sets its priorities and business objectives.

As an exchange and a listed company, Bursa Malaysia is in a unique position to face the challenge that CSR poses, both from a commercial and regulatory standpoint. Being a listed company, Bursa Malaysia is in position to “walk the talk” as a PLC as well as guide and influence other PLCs to implement good CSR. As a commercial entity, it will have to follow up its announcements and guidelines with its own performance according to set standards. Through its regulatory role, Bursa Malaysia has the ability to influence the way all the other PLCs view, adopt and integrate CSR into their business practices.

To that end, as part of our efforts to guide PLCs in adopting CSR into their business practices, Bursa Malaysia introduced a CSR framework and guidelines last year. We are encouraged by the positive response from the PLCs and look upon this as a crucial step moving forward. Soon we will institute initiatives designed to encourage better CSR practices amongst PLCs and, more importantly, guide them in achieving better CSR performance.

CSR issues such as carbon emission reductions, human capital development and global health are moving from being mere value adds to becoming key performance indicators in business management. It is noted that many companies carry CSR criteria as KPIs of the senior management in addressing long term risks to shareholder and stakeholders’ value. In this respect, members of the top management become proactive CSR champions and lead the pack in inculcating CSR into the organizational culture. It is important to note that CSR strengthens the very fabric that builds both internal and external trust and for this to work, employees have to be engaged in CSR and the values must be embedded into every aspect of the company’s fundamental operations.

The role of NGOs and professional bodies is also important to complement efforts to spur CSR. Through self-regulation and raising public awareness and expectations, NGOs and

professional bodies can place pressure on companies to go beyond their minimal statutory duties and legislative requirements. Therefore, efforts taken by bodies such as the ACCA through the MESRA awards to promote CSR best practices should be applauded and continuously encouraged.

Conclusion

Bursa Malaysia recognizes the importance of long term sustainable development, not only to generate stronger business growth but also promote a more balanced growth which incorporates the social and environmental dimensions of development. CSR is a journey by business rather than a destination. Although there is a slow uptake of CSR amongst Malaysian companies, there is a growing awareness that CSR affects the long-term profitability of the business. As non-financial considerations become more important to a business and the way it is regarded by the community, it will not be long before CSR moves into mainstream strategic management.

In closing, I commend this initiative taken by ACCA to raise the profile of environmental and social reporting among companies in Malaysia. ACCA has been a pioneer in promoting CSR through the ACCA MESRA awards which is already in its fourth year. We also see more companies participating in such awards and moving towards integrating reporting across environment and social dimensions. We hope that the initiative will encourage more voluntary environmental and social reporting from all type of businesses, thus proving that we can integrate CSR concerns in economic decision-making.

On that note, I would like to offer my congratulations to the winners of this year's awards. You exemplify many of the qualities I have touched on earlier and on behalf of Bursa Malaysia, I look forward to witnessing your continuing successes.

Thank you.