

Sustainability in the Banking Sector

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On August 1st, *Jordan's First Socially Responsible Banking Forum* took place in Amman, Jordan. Sustainability Excellence, an Amman-based premiere sustainability consultancy firm leading the uptake of sustainability management in the Arab World, was invited to speak to the sector about sustainability and how it fits into the banking world. Though the concept of sustainability is relatively new in the Arab world, the adoption of sustainability management among banks is wide-spread globally. The President of Sustainability Excellence, Darin Rovere, began the seminar by explaining what sustainability is: the integrated management of economic, environmental and social performance with the aim of enhancing value for all key stakeholders.

In the banking world where economic performance rarely shares the bottom-line, there might be questions as to why integrating social and environmental performance is so important. Sustainability Excellence provided four key reasons: (1) sustainability is core to strategy, (2) sustainability is a top driver of innovation, (3) sustainability is focused on performance and value, and (4) sustainability is the next step in management excellence.

Previously, banks and corporations viewed a corporate social responsibility (CSR) strategy as a 'nice thing to do'; CSR started out as a program to mitigate any harm done to the community and to give back to society. These initiatives were developed and managed by middle management, and were perceived as the bank's 'extracurricular' activities, not directly affecting the core operations of the business. Today, a very different trend and perception is emerging. CSR and Sustainability strategies are understood to be core to strategy, providing a thorough risk and opportunity analysis which no longer is managed by middle management, but is brought up to senior management and the board of directors. Sustainability is viewed as the next step in management excellence.

The message that sustainability is core to strategy was illustrated with Vodafone's 2008 Sustainability Report which was titled, *One Strategy*. In the report, Vodafone writes, "What do we mean by One Strategy? In our major business areas, our Company's strategy and our Corporate Responsibility (CR) Strategy are inseparable. We have just 'one strategy'. The recently launched 2009 National Bank of Abu Dhabi (NBAD) baseline Sustainability Report titled *Our Commitment* states "Sustainability is more than just a 'nice thing to do'; it is the next level of management excellence. One of the greatest areas of impact will come from our commitment to product and service innovations, ensuring top quality and value in everything NBAD delivers beyond the walls of the bank."

Sustainability is also considered a top driver of innovation because it brings into focus a wider range of economic, social and environmental risks and opportunities. Sustainability reviews the business strategy with a different lens, leading to innovative solutions to a bank's operations, products and services. Sustainability thinking has led to paperless banking, energy and water efficiency and enhanced risk screening for investments, which has all led to savings for the bank and sound business practices. These

points are emphasized in the September 2009 issue of the Harvard Business Review titled *How Green Will Save Us*. An article titled *Why Sustainability is Now the Key Driver for Innovation* argues that only those companies who embrace sustainability will survive the financial crisis.

Sustainability is the next step in management excellence because it requires those who adopt sustainability management to capture and frame their own sustainability opportunity. It is also an excellent management tool, as it is directly linked to performance. Sustainability is always meant to look forwards, setting short term and long term goals published for the various stakeholders such as the investors, employees or the environment in the annual sustainability reports.

The implementation of sustainability management in the Arab world is increasing, with a number of banks and investment firms who have taken steps forwards. The National Commercial Bank (NCB) in Saudi Arabia was the first bank in the region to publish a sustainability report in 2008. National Bank of Abu Dhabi (NBAD) recently released their first baseline sustainability report (2009) which also committed the bank to adopting the Equator Principles. Abraaj Capital has implemented an ethical framework for investments and has completed environmental assessments and green screens on investments.

Earlier in the year we saw the release of the *Responsible Competitiveness in Jordan Report*, which included analysis and strategies for the insurance, banking and the meat-processing sectors in Jordan. Sustainability Excellence prepared this report on behalf of the Ministry of Planning and International Cooperation, which is currently reviewing the recommendations for further action. Key recommendations for the banking sector included: mandating all banks to release sustainability reports; encouraging the adoption of the Equator Principles, Carbon Disclosure Project, and the CDP Water Project; encouraging product and service innovations which support national priorities; and placing emphasis on 'smart' philanthropy, such as microfinance.

Sustainability reporting seems to act as the catalyst towards adopting sustainability management. Within a report, the bank would have to publicly report on the bank's sustainability strategy, commitments and performance. A bank's performance refers to the economic, social and environmental performance in the areas of greatest priority to the bank's stakeholders. As public reports demonstrate accountability, transparency and an understanding of the concepts of which it reports on, one can see how momentum can be gained simply by writing a sustainability report – Leading to strategic insights, performance gains, customer trust and loyalty, and reputation increases which will in turn attract and retain top talent. If you would like to know more about Sustainability or Sustainability Reporting, please contact Erika at ewelch@sustainabilityexcellence.com

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