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Citation

Singapore Management University. Sustainability and profitability. (2013).

Available at: <https://ink.library.smu.edu.sg/pers/59>

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Sustainability and profitability

Published:
23 Oct 2013



The best way to encourage sustainable business practices is to think of it as a brand enhancer
When the haze from Indonesian forest fires drifted over to neighboring Singapore and Malaysia for its annual visit in June, the response was predictable: “Again?!” What was different this year – besides the Air Pollution Index (API) hitting an all-time high of 746 in Malaysia on June 23 – was the availability of satellite images from Non-Governmental Organisations (NGOs) which pinpointed where the fires were burning.

As it turned out, Indonesian conglomerate Sinar Mas Group were the worst offenders. According to the World Resources Institute, 10 of 17 timber concessions which registered the highest number of fire alerts from June 21 to 23 belonged to Sinar Mas. Not surprisingly, its stock on the Singapore Exchange (SGX) took a beating, dropping from S\$0.885 at the beginning of June to S\$0.635 two days after the record-setting API reading in Malaysia.

“When Unilever and Nestle said, ‘We will no longer work with Sinar Mas’, it had an impact on the supplier companies which changed their policies to comply with the vendors’ requirements,” says **Caroline Rennie**, Professor of Sustainability at the Business School Lausanne in Switzerland. “In the early days when people signed the UN Global Compact, one of the principles, for example, said

'You will not participate in any human right abuses', but there wasn't a requirement that you should know about your suppliers' activities. Today there is a requirement to know that."

Making demands on suppliers

Although Unilever and Nestle did not stop their association with Sinar Mas as a direct result of the 2013 Southeast Asian haze crisis – they did in 2009 and 2010 respectively – it highlighted a crucial point: public perception about whether a company conducts business with sustainability in mind can affect its corporate brand value and, by extension, business performance.

"Investors are rewarding companies that can prove they are paying attention to sustainability issues because it's good business," Rennie told *Perspectives@SMU*. "A study published by Harvard ("Making Sustainability Profitable") found that companies which systematically incorporate sustainability into everything that they do – as Unilever has – outperform the market significantly. So investors are asking for very clear reporting on this."

She adds, "Now you have to know your supply chain, the practices of your suppliers, and if you are a supplier of a MNC you have to be able to commit to the highest standards. Because something like the Carbon Disclosure Project isn't asking a company just about its operations – it's asking it to report on its entire supply chain."

Sustainable profits

Rennie, who was a speaker at the seminar *Making Business Sense of Sustainability: Palm Oil, Transparency and Big Brands* organised by the Lee Kong Chian School of Business, gave the example of Innocent Drinks and The Body Shop which built a strong following by weaving sustainability into its company DNA. Coca-Cola has bought the former, while the latter is now part of the L'Oreal group of companies.

Rennie says that Coca-Cola believes that the value they get from Innocent Drinks is not just the profit. "It's understanding how the business thinks. What were they thinking when they established themselves? And what could Coca-Cola learn from them in terms of how to do business and how to go to the market."

What about the companies who are not convinced of the need to think about sustainability? What do you say to company executives who think of the practice of sustainability as an unnecessary business cost?

"You can make fast money short-term by being brutal to the environment, but it can't last very long because the environment is where we get our air, water, and services," Rennie warns.

Sustainability is not a zero sum game

Besides being aware about the need to be environmentally sustainable, Rennie also points out the need for big corporations to be operationally sustainable. Citing the ongoing minimum wage wrangle at Wal-Mart, Rennie expressed that some executives were of the thinking: If we're paying people so little and they cannot afford to buy in our shops, who exactly do we think we're serving?

"We need to think more cleverly about how and what we do so that we're actually creating consumers instead of cutting consumers," Rennie says. "If we pay people sufficiently so that they can buy the products we make, then you can grow the pie."

While Wal-Mart struggles over their own issues of sustainability, Rennie points out that Unilever is being viewed by investors as "more clever, more resilient, and more trustworthy". "If you're an investor and you're putting your money in someone else's hands, you want to know that it's a safe pair of hands and a clever pair of hands. Those are the companies that are less likely to have brand damage."

"One of the things that we were looking at today was brand value. Brand value is mostly the perception and trust that people have that you can continue to generate profits. So if I'm investing my money, I want it invested in a company that is sustaining and building and securing the brand value. Sustainability means all those things that help make sure you have got sustainable profits for your company."

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