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Beyond the buzzword

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The journey to corporate sustainability.

By Ryal Wun

According to Jen Boynton, vice president of member engagement at 3BL Media, “Corporate responsibility is simply a way for companies to take responsibility for the social and environmental impacts of their business operations.”[1] Looked at this way, corporate social responsibility (CSR) can, in effect, include a whole gamut of business practices and policies that make a business socially accountable–to itself, its stakeholders, and the public. These activities can range from philanthropy and environmental consciousness to ethical labour practices.

While socially responsible business practices have been around since the very inception of private enterprise, only in recent times has the concept been formalised into business practices, and businesses are being held accountable for it by their stakeholders. In Singapore, the first formal push towards CSR dates back to 2005, with the establishment of Singapore Compact, a national society that provided a multi-stakeholder platform for co-ordinating CSR policies and practices.[2] This is not to say that individual companies were not already implementing CSR policies–corporate giving and volunteering had already been part of general corporate activities, though largely confined to the likes of tree-planting and charitable donations.

Today, corporate giving remains relevant as businesses move beyond *ad hoc* and transactional giving to more strategic and impactful giving. Such corporate philanthropy has emerged as going beyond a business practice to forming an integral part of a corporate strategy to engage stakeholders and inspire employees. Organisations like the National Volunteer and Philanthropy Centre continue to promote the national narrative of giving by facilitating partnerships among companies, public sector bodies and individuals, and conducting research on motivations and behaviours.

CSR or corporate sustainability?

Over time, the concept and form of CSR have evolved. Terms like corporate citizenship, corporate ethics and corporate sustainability have emerged as companies sought to adopt social and environmental policies that suited them. The latter term, corporate sustainability, has emerged as gaining favour as it also includes economics and business longevity, based on the premise that businesses operate to meet today’s needs while ensuring sufficient resources to meet the needs of future generations.

The twin concepts of CSR and corporate sustainability are sometimes erroneously used interchangeably. The CSR approach focuses on satisfying a present community need, without necessarily addressing the root cause of the issue or consequences. Examples include one-off beach cleaning exercises by staff or the building of healthcare centres without taking into consideration the resources needed for the long-term viability of the asset. CSR initiatives also do not need to align with corporate business strategy, increasing the risk of perceptions of greenwashing. Finally, CSR efforts are usually targeted at external stakeholders and certain demographics. In sum, CSR efforts, while responsible, may not necessarily be sustainable.

This differs from corporate sustainability, which relates to a company's ability to keep the doors open for business into the future by focusing on forward and long-term thinking plans. Sustainability efforts align with the company's business model, and take into account internal stakeholders. Examples include flexible working hours for staff or utilising technology for staff development in order to reduce travelling and carbon footprints.

In the end, though, it is arguably all semantics, and both concepts are beneficial to a company. Perhaps what matters is the positive impact of the action.

In 2015, the Singapore Compact became the local chapter of the United Nations Global Compact, and was rebranded as the Global Compact Network Singapore. This shift from built-on philanthropy and volunteering practices to built-in responsible corporate behaviour reflected societal expectations of modern companies. According to the 2015 Nielsen Report on consumer expectations, brands that commit to sustainability outperform and grow faster than those that do not, and 66 percent of consumers are willing to pay more for sustainable brands.[3] Hence it is not surprising that Singaporean companies leading in corporate sustainability, like City Developments Limited (CDL), Singtel, DBS Bank and Olam International, have mirrored the growing demand from consumers towards increased transparency on climate-related business risks, human rights, labour practices and governance issues in their business models.

Elsewhere in Asia, as well, sustainability is increasingly being embedded into business models. According to the 2016 Channel NewsAsia Sustainability Ranking, South Asian companies like Wipro and Infosys (both from India) lead the way in sustainable development. In East Asia, leading companies in sustainability include Taiwan's Lite-On Technology Corp, Qisda Corporation and United Microelectronics Corporation; South Korea's Hankook Tire Company, Coway Company and S-Oil Corporation; and Japan's Calsonic Kansei Corporation, NEC Corporation and Inpex Corporation. Outside of Singapore, Southeast Asia's leading sustainability companies include Thailand's Siam Cement Public Company and PTT Global Chemical Public Company.[4]

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A public-private sector partnership

In the public sector, regulation has emerged as a means to create a more sustainable business landscape. In June 2016, the Singapore Exchange introduced mandatory sustainability reporting for all listed companies on a 'comply or explain' basis.[5] In January 2019, a carbon tax, together with a requirement for an emissions report, was introduced for companies emitting 25,000 tonnes per year (t/y) of greenhouse gases. Taxable facilities across all sectors are required to pay a carbon tax set at S$5/t (US$3.89/t) between 2019 and 2023, after which the rate will be reviewed and progressively increased.[6]

By the end of 2020, firms that use packaging materials will be required to submit an annual report to the National Environment Agency with information on the type and amount of packaging in their products. They will also be required to reveal their waste reduction plans. Such measures collectively give some indication of the nature and pace of the national sustainability agenda of the Singapore government. The Singapore Packaging Agreement, a joint initiative by the government, industry and NGOs to reduce packaging waste, has made progress in effecting behavioural change. In 2018, 229 voluntary signatories to the Agreement had cumulatively reduced almost 46,000 tonnes of packaging waste, saving over SGD$100 million (US$73.6 million) in the process.[7]

In the private sector, socially-conscious investors and other stakeholders favour a focus on environmental, social and governance (ESG) criteria within company operations. Environmental consciousness examines how a company serves as a steward for nature, while social consciousness pertains to a company's relationship management with its employees, customers, and the community at large. Governance includes a whole host of factors such as a company's leadership in internal controls, auditing and supply chain management. In China, Beijing Enterprises Water Group provides sustainable wastewater treatment services, and has won contracts worth US$7 billion, while BYD, a Chinese automobile manufacturer, built on its expertise in mobile phone battery manufacturing to become one of the world's largest manufacturers of electric vehicles. In Southeast Asia, Bank Rakyat Indonesia leverages on its strong microfinance and mentoring model to deliver a robust return on capital of 25 percent.[8]

Large pension funds and asset owners are requiring more accountability and emphasis on ESG factors. The World Bank Group and Japan's Government Pension Investment Fund have found that incorporating ESG factors into fixed income investment strategies strengthens risk management and contributes to more stable financial returns.[9] South Korea's National Pension Service has signed up to the Principles of Responsible Investment and Taiwan's Bureau of Labour Funds has set aside US$2.4 billion for the Global ESG Quality Fix Equity Indexation mandate. And according to the World Bank, investors are already going beyond ESG factors in their risk analysis, and including impact considerations against factors like the UN's Sustainable Development Goals. For instance, RS Group in Hong Kong adopts a total portfolio approach to asset allocation across a wide range of activities in the financial spectrum, while Singapore-based Garden Impact Investments provides expansion capital to businesses in Southeast Asia that create jobs for the marginalised.[10]

Investing in sustainability has also seen the emergence of green bonds, instruments used to fund projects that benefit the environment. In 2018, the Association of Southeast Asian Nations (ASEAN) adopted region-wide guidelines promoting transparency to investors.[11] Thailand's Kasikornbank issued a sustainability bond in 2018 benefitting the environment and social welfare, the first ASEAN bank to do so. Similarly, CDL and DBS Bank issued green bonds in 2017, the latter being the first such financial institution in Singapore to do so. Besides green bonds, social bonds have also taken root. In 2018, Singapore's Impact Investment Exchange, in partnership with DBS, set up a social bond programme with the purpose to empower Asian women. Such ESG-related instruments are likely to gain traction in Southeast Asia, where natural disasters connected to climate change and other issues like poverty and gender inequality are not uncommon.

Global trends in corporate sustainability

As sustainability gains traction globally, we see the emergence of some corporate sustainability trends.[12] First, there is perceptible growth of companies setting science-based targets or taking science-based climate action. Science-based targets

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have emerged as a corporate standard as they support the goals of the Paris Agreement without coming across as mere marketing claims. Such targets include aligning with the ISO 14064 standards for reducing greenhouse gases (GHG) emissions.[13] In the transition to a low-carbon economy and to future-proof growth, over 500 companies have set science-based climate action and about 170 have approved science-based targets. Of these, 128 companies are from Asia, three of which are headquartered in Singapore.[14] For instance, Williams-Sonoma developed an analysis of the benefits of setting targets for Scope 1, 2 and 3 emissions,[15] and Colgate-Palmolive plans to set water-usage targets.[16] The benefits of such targets include catalysing innovation, increasing resilience to growing regulations, strengthening investor confidence, and gaining a competitive edge in the market.[17]

Second, there is growing interest in addressing supply chain emissions. Companies have begun to take an active interest in scrutinising upstream and downstream activities. The desire to reduce indirect GHG emissions across the whole value chain, while aspirational, is not without its challenges, including the ability to capture and measure such data before being able to implement reduction strategies. Pharmaceutical company, Novartis, has devised a dashboard for capturing upstream and downstream activities, enabling the tracking of total carbon emissions potential hotspots and identifying areas to engage suppliers to reduce environmental impact.[18]

A third trend is that technology companies are taking an interest in sustainability. The information and communications technology industry, while generally increasing efficiency, concurrently contributes to an increase in GHGs through product usage and the product itself. Conscious of this, technology companies are increasingly taking steps to reduce the carbon footprint of their products and platforms by integrating sustainability into their business model from the outset. This includes the development of low-impact manufacturing, shipping and tools and sustainable product life cycles, and educating employees and consumers on sustainable practices. For instance, Kickstarter, the largest funding platform for innovative projects, created an online environmental resource centre for early-stage entrepreneurs, providing tools to reduce the environmental impact associated with manufacturing and logistics.[19] This has the added benefit of instilling a sustainability mindset in young business people at the start of their careers.

Finally, sustainability is precipitating innovation. Since there is no universal formula to sustainable solutions across industry sectors—or among companies of different sizes within sectors—a range of technologies have emerged to enable companies to be more efficient and productive, and to scale while providing the means to measure their business impact. Ulta Beauty, the largest specialty beauty retailer in the U.S., created an analytics tool to quantify the impact of air infiltration due to guest traffic on total energy consumption.[20]

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Integrating corporate sustainability into future business models

The policies and practices of public and private actors, together with emerging global trends, provide some indication as to the rate of change of sustainability as an increasingly acceptable part of business strategy. Investors' interest in ESG factors appears to be growing, as they prioritise impact measurement of such elements in their decision-making. This stems from stakeholder expectancy and demand for increasing transparency.

This is likely to precipitate greater momentum for sustainability to develop beyond a boardroom agenda or a box-ticking exercise. From shareholders to employees, demographics have shifted. Rather than consider this an inconvenience, companies should regard this as an opportunity gap to exploit, and review the social contract they hold with the community within which they operate.

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