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What's the big deal about sustainability?
By Lawrence Loh

Do boards need to care about sustainability? This is a question I often face in my interactions with corporate leaders.

An old friend of mine, who is also a top IT leader in a renowned Singapore company, provided an interesting perspective. He said that, unlike IT, sustainability was "fluffy".

He explained in great detail the many "inflexion points" that IT has undergone over the years. Many of us can, of course, see these IT-induced changes in the economy. Most importantly, he said that it is possible for companies to adopt the benefits of IT and derive value for themselves. In other words, companies have an incentive to invest in IT. However, my friend believes the same cannot be said for sustainability. In his view, it is not a legitimate corporate endeavour.

Limited interest in sustainability

As it turns out, many companies and their boards share my friend's perspective.

In the recent Singapore Governance and Transparency Index (SGTI), which was produced by CGIO of NUS Business School, with CPA Australia and SID, the results on sustainability have not been too promising. As a topline indicator amongst the listed companies on the SGX, only 13.2 per cent publish an annual sustainability report as at mid-2017. This is about the same level (12.8 per cent) in 2016.

Of course, with the SGX mandating sustainability reporting from next year onwards, the numbers will increase. However, though sustainability itself is not a big component of the SGTI, the present state of affairs is neither desirable nor encouraging, simply because they raise troubling questions about corporate attitude towards the interests of stakeholder groups such as communities, creditors, customers, employees, investors, or even the value chains at large.

But why are companies being slow to commit to sustainability?

More than "just" the environment

Part of the reason is that sustainability is just not well understood.

Its historic genesis is rooted with the environment, with which it retains strong associations. There is, in other words, a strong "green" undertone. To be sure, maintaining a better environment, specifically to tackle the problem of climate change, is important. However, in the ongoing push for sustainability, notwithstanding the involvement of many credible organisations, it does not help the greater sustainability cause that advocates of environment protection are often perceived to be overzealous activists.

It is not that the perils of climate change should be understated. Nor is it the case that boards, on a broader level, are numb to the garden variety of global initiatives that have sprouted over the years, all exhorting a wholehearted embrace of sustainability. If anything, the almost universal commitment to the Paris Agreement or the Sustainable Development Goals clearly indicates which side of the sustainability argument most corporate leaders fall on.

However, my point is that sustainability is about much more than "just" the environment. Rather there are many ways to frame the idea or ideal of sustainability. The "ESG" approach which connotes the environmental, social and governance aspects of corporate practice is one such way.

Stakeholder lens

The stakeholder perspective is, in my view, probably the best approach for companies to embrace sustainability and for them to derive value from it. As a matter of best practices, a company's spectrum of key stakeholders should be mapped out to determine how engaging each of them will benefit it.

For instance, with respect to the community, companies will be valued more if they demonstrate socially responsible behaviour. Similarly, customers, especially those in the LOHAS (Lifestyles of Health and Sustainability) segment, often prefer to buy from companies with sustainable practices. For creditors, lower cost of financing may be possible. Similarly, better quality and more engaged employees may be recruited. On the investor side, there may be better access to capital as this group is increasingly looking at sustainable impact when making investing decisions.

The proof is in the pudding, as global surveys and academic literature point clearly to the positive relationship between sustainability practices and corporate performance.

But here's the nub of the question: If the evidence supports the benefit of incorporating sustainability into a company's operations, then why do we not see more companies scrambling to do so?

There is, of course, the cost issue. But the crux of the matter is the classical "free-rider" problem especially when it relates to free resources, particularly the environment. When a clean environment is regarded as "free", then every company will consume as much "free" resources as possible without any regard to others, or the consequences.

However, if we embrace a holistic notion of sustainability to cover a wide range of stakeholders and address them for specific relevance to the company, the value proposition becomes much clearer.

Imminent imperative

Apple's founder Steve Jobs famously said: "If you don't cannibalise yourself, someone else will." Conversely, and perhaps less perversely, from a sustainability standpoint, if directors do not make their company sustainable, some stakeholder will force them to.

In other words, companies may, soon, actually have no choice on the matter. Stakeholders are increasingly demanding companies to embrace the notion of sustainability. If the SGTI results are an indication, the signals may be weak now, but I genuinely believe that the tide is turning.

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