Sustainability – A strategic imperative for boards

By **ROBERT CHEW**
Council member, SID

Supporting sustainability is no longer a token for companies. It is a do, or prepare to be questioned, especially by a world made up of savvy stakeholders increasingly passionate about doing good for the communities and environment they live in.

"As the head of a company operating in more than 190 countries and whose products are used by two billion people every day, I'm convinced that businesses have both a responsibility and an interest in supporting sustainability," said Paul Polman, CEO of Unilever.

The preponderance of evidence shows that sustainability is going mainstream, if it is not already. Companies that proactively make sustainability core to business strategy will drive innovation and build loyalty with customers, employees, suppliers, communities and investors. Boards can no longer afford to approach sustainability as a "nice to have" function separated from the "real" business.

SGX Sustainability Reporting Guide

In June 2016, the Singapore Exchange (SGX) launched the Sustainability Reporting Guide. Every listed company is now expected to publish their first sustainability report, on a "comply or explain" basis, effective from financial year ending on, or after 31 December 2017.

This is no newfangled, additional reporting burden for boards. The Code of Corporate Governance 2012 states that it is the board's role to consider sustainability issues such as environmental and social factors, as part of its strategic formulation (Guideline 1.1(f)).

Indeed, the SGX Sustainability Reporting Guide reflects a strategic, principle-based approach to reporting. Boards should identify the environmental, social and governance (ESG) factors relevant to the business; address them like any other risks and opportunities; link them with the business strategy, operational and performance targets; and adopt a reporting framework appropriate to the business.

Singapore Lags Behind In Sustainability Reporting

Sustainability reporting is long overdue as our businesses fall behind other markets in this area. A study by the Centre for Governance, Institutions and Organisations (CGIO) of NUS and the ASEAN CSR Network (ACN) found that only 37 per cent of mainboard-listed companies here communicate their sustainability practices for the two calendar years of 2014 and 2015 as compared to 81 per cent of the S&P Index 500 companies that published corporate sustainability reports in 2015, and 100 per cent of the top mainboard companies in Indonesia, Malaysia and Thailand.

Still, not everyone is enthusiastic about this reporting requirement.

Sustainability is clearly important but the reports are not likely to show anything other than boilerplate statements, commented renowned

Singapore-based investor Jim Rogers at the launch of the reporting requirement in July 2016.

Boilerplate reporting and checklists ticking for the sake of compliance might unfortunately be what is going to transpire if businesses do not see the relevance of sustainability practices.

Sustainability As Strategic Imperative

Ownership of this begins at the top, with the boards. The SGX Guide highlights that the board should "see to it that they (sustainability issues) are monitored and managed".

This harks us back to the basic: why even consider sustainability issues?

For one, the general public is becoming aware of them. Consider the public outrage at businesses responsible for the 2013 Southeast Asia haze when PSI levels entered the unhealthy range. The result is companies now face unprecedented demands and opportunities related to their social and environmental sustainability.

Customers increasingly demand, and are willing to pay for, offerings that align with sustainability-oriented ideals.

A large and growing number of employees prefer to work for sustainability-oriented companies, making sustainability a key lever for attracting and retaining top talent.

Boards have a responsibility to direct this sustainability imperative - to develop effective sustainability oversight as well as to meet the needs of the SGX Sustainability Reporting Guide.

As first steps, Boards should consider the following three actions:

- Formalise sustainability as a board priority. Embed sustainability in the terms of reference for board committees, and in discussions on strategy, risks and incentives. Gap Inc, for example embeds sustainability into the mandate of its Governance, Compensation, Audit and Finance committees.
- Identify and focus on company specific and material ESG issues that impact operations and revenue, rather than considering "sustainability" in a generic and broad sense. Unilever's board is responsible for monitoring the company's Sustainable Living Plan, the blueprint to grow its business, whilst decoupling the environmental footprint from its growth and increasing its positive social impact.
- Incentivise management for sustainability performance and establish linkages between executive compensation and sustainability targets. BHP Billiton and Campbell Soup use a "balanced scorecard" that incorporates business and sustainability priorities into a suite of indicators used to determine short- and long-term performance payouts.

The above will help companies embark and ease in to a journey towards creating new opportunities, enabling innovation and achieving sustainable development. ■