

# Remarks by Mr Lim Tuang Lee, Assistant Managing Director (Capital Markets Group), Monetary Authority of Singapore at the Singapore Governance and Transparency Forum on 1 August 2024

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## Introduction

Ladies and gentlemen, a very good morning to you. I am delighted to join you at the SGTI awards this morning. I would like to congratulate the award winners, who have made significant headway in their corporate governance disclosures and practices.

I noticed that the theme for today is “Navigating Sustainable Governance”. The title is very apt, given that the topic of sustainability has been discussed at great length in recent years. It is an important global priority that we must address together. Today, sustainability is not only a topic on governments’ agendas or multilateral treaties. It is now a part of boardroom discussions and frequently on the minds of investors and individuals.

In fact, today’s investors have become more conscious of the ethos of the companies they invest in. Investors no longer look only at traditional indicators like a company’s profitability or their return on capital. They also observe how companies are focusing on sustainability, business ethics and integrity. PwC’s Global Investor Survey 2023 <sup>[1]</sup> found that 75% of respondents would, when making

their investment decisions, factor in how companies are managing and pursuing sustainability-related risks and opportunities. In other words, investors are demanding for more information on a company's impact on the environment and society.

In line with this, I would like to talk about three Ps that companies can relate to in this journey of navigating sustainable governance. Let me touch on them in turn.

### **Profit: Balancing Economic Success and Impact**

The first "P" I would like to talk about relates to "Profit". Financial economics or accounting 101 tells us that commercial entities exist primarily to make a profit. To quote Milton Friedman, the father of modern economics, "there is one and only one social responsibility of business... to increase its profits so long as it stays within the rules of the game". To many, a firm's bottom line is its sole aim. This is also a foundational element of business analysis.

I would like to propose that businesses can go beyond simply financial profit. While it is not wrong for businesses to focus on the bottom line, they can do so with a strong sense of purpose, which can add to its longer-term viability and sustainability. To do so, companies will need to pay heed to their ecosystems, namely their customers, employees, communities, as well as the operating environment. Taking an ecosystem view can drive business growth by building brand preference and loyalty with customers, motivating employees who can help drive innovation and optimise costs. Ultimately, companies that are driven by a sense of purpose that transcend beyond simple financial profits are more likely to sustain in the longer term.

### **People: Fostering a flourishing culture**

Let me now elaborate on the second "P" - "People", which looks at a company's impact on its employees, customers and the community. It is important to nurture a positive people centric culture to help cultivate a sense of belonging and purpose among stakeholders. This can in turn give rise to more engaged employees and more reliable suppliers. A

study <sup>[2]</sup> released last year found that companies that provide their employees with positive experiences that reflect their company culture, are more likely to have positive business outcomes in terms of customer service and financial performance. It is the responsibility of a company's leadership to set the tone, shape its values, and percolate them across the organisation to form its operating culture. Steps taken by top leadership can have a rippling effect that cascades outward to eventually reshape business ecosystems and rewrite the rules of the road altogether.

I am therefore heartened to learn that the “Engagement of stakeholders” pillar of the SGTI framework covers people-related topics such as customer health and safety, employee training and development. I also notice that the scores have increased over the years. While this pillar has now been expanded to contain more wide-ranging sustainability-related questions, the results indicate how companies have prioritised the people aspect of governance.

### **Planet: Caring for the Environment**

The last “P”, “Planet”, looks at a company's environmental impact. Companies today can no longer ignore how their operations add to carbon emissions, which in turn, affect the environment. A business that takes active steps to protect the natural ecosystems that it is operating within can reduce any potential financial liability, manage its reputation risk and positively influence the company's longer-term footprint and legacy. Companies therefore need to keep an eye on sustainability goals and enhance their risk governance processes. They should look at the entire life cycle of their actions to determine the costs or potential impact to the environment and make the necessary adjustments to business operations and strategies.

### **How it all adds up**

I must add that it is all a balancing act. Making profit, looking after people and taking care of the planet are interwoven together. In fact, at the risk of repeating myself, pursuing sustainable business practices while seeking the good of ecosystem stakeholders make good business

sense. Businesses that stand the test of time are those that can articulate their value proposition and strategic direction clearly and execute them effectively. They are the ones that not just focus on the here and now, but think long, think big, and think beyond – beyond the company’s immediate financial gains, towards a greater vision of what value they can create and bring to the broader ecosystem.

Many global companies we see around us that have thrived across generations, are driven by compelling and purposeful visions and missions. For instance, Unilever’s purpose is to make sustainable living commonplace, and this is embodied in the Unilever Sustainable Living Plan <sup>[3]</sup>. This framework not only yielded significant environmental and social benefits, but drove business growth and profitability. It led to the development of new products and processes that are environmental-friendly and cost-effective, which in turn helped to optimise the supply chain by minimising waste and transport costs. Such concrete actions across the entire value chain have translated to higher profitability and market share <sup>[4]</sup>. Unilever’s commitment to sustainability has also resonated with consumers and built brand loyalty.

Finally, all these factors, along with other performance measures, culminate in what a company would convey in its regular reports to stakeholders. Like a student’s report card, robust disclosures, including climate-related ones, are what investors and customers are looking out for. We have observed that nearly all Singapore-listed companies have responded to this call and have commenced climate-related reporting efforts. As of end 2023, the number of firms has increased to 96%, up from 65% in the previous year <sup>[5]</sup>. SGTI results in recent years have also found that there is increased disclosure of sustainability-related information. Listed companies are also using international standards such as those by the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD). More recently, the Singapore Exchange has consulted on adopting standards issued by the International Sustainability Standards Board (ISSB) into its reporting rules for climate-related disclosures, demonstrating its commitment to facilitate consistent and comparable sustainability-related information.

## **Conclusion**

The SGTI reveals both our progress and potential. I am proud to say that the SGTI results have shown good progress, especially in sustainability-related topics. This shows that we are right on track. I would like to once again congratulate firms who have made good headway.

It is also important to recognise that each company has a unique business model, structure and culture. No two companies' pathways are alike. It is therefore important for companies to chart their own course as they commit to a better future. I look forward to a new normal where businesses align purpose with profit, embrace innovation, and engage in responsible practices to create positive impact on the environment and society.

I wish you a fruitful discussion ahead.