Impact of Sustainability Trends on Business

By
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Boards and their companies should recognise that changing investors, regulators and societal expectations require that they pay closer attention to sustainability issues. At the same time, technological innovations and responsible investment funds create new growth opportunities for them.

The Singapore government has rolled out several sustainability-related initiatives in the last year:

- Sustainability reporting will be required on "comply or explain" basis for all listed companies from financial year ending 31 December 2017.
- A 30 per cent increase in water price (the first revision in 17 years) was announced in February 2017.
- A carbon taxation scheme to encourage reductions in greenhouse gas emissions was announced in the Singapore Budget 2017.

These initiatives will impact all stakeholders, including companies. Businesses will have to adapt their strategies and operations to remain competitive.

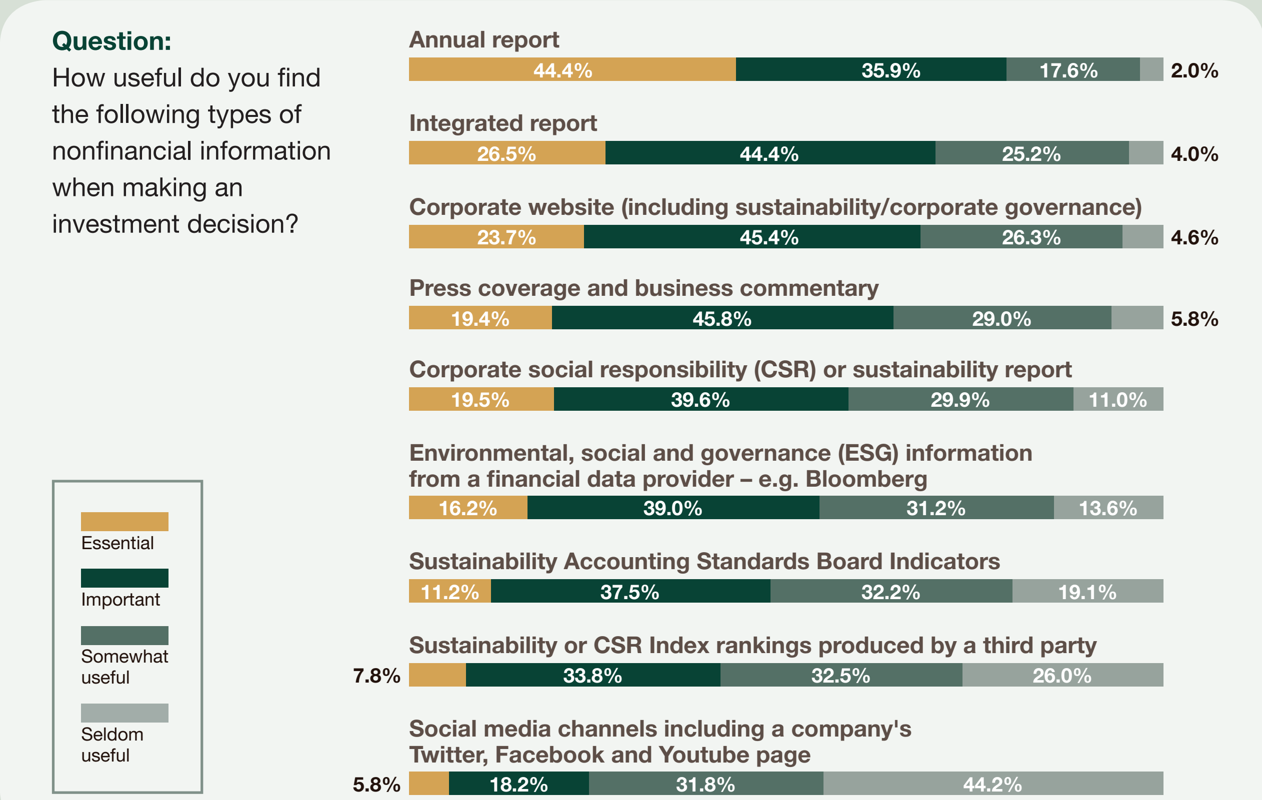
However, these initiatives may just be the beginning. Sustainability is of increasing importance, and it behooves boards to understand the trends to ride the waves of change.

Meeting investors' expectations

Traditionally, investors depended on financial information on the operations and profitability of a business for their investment decisions.

With sustainability issues becoming more prominent, disclosure of nonfinancial information, including sustainability or environmental, social and governance (ESG) factors, is increasingly expected.

A recent survey of investors found that beyond information on operational performance, investors look for disclosure of relevant and comparable nonfinancial information to evaluate the overall performance of the business, and they want them directly from the companies instead of third party sources.



Source: Tomorrow's Investment Rules 2.0 (EY, 2017)

Meeting regulatory expectations

From climate change to sustainable development, regulators are implementing more measures so that businesses will fall in line.

Increasingly regulators are pushing companies to operate sustainably by providing guidance on and/or mandating sustainability reporting.

The Sustainable Stock Exchanges is a peer-to-peer learning platform for exchanges to enhance corporate transparency and performance on ESG. It records about 20 stock exchanges that have introduced guidance, initiatives or regulations on the disclosure of sustainability information by listed companies. Examples of regulatory requirements include sustainability reporting, carbon disclosure project reporting, carbon taxation, cap-and-trade and the disclosures of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures.

According to the Global Reporting Initiative (GRI), the number of disclosures made annually are rising.

Meeting societal expectations

Multinational corporations (MNCs) have been leading the way in disclosing their sustainability initiatives. MNCs have significant reach to the communities in which they operate through direct employment, supply chain and products or services that they offer.

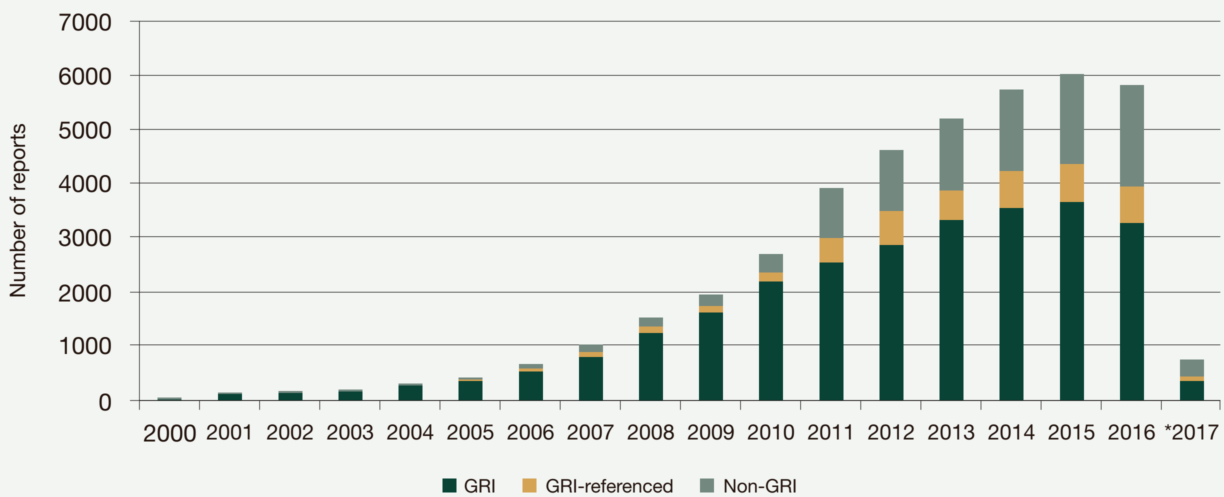
The actions of companies directly impact the community. When businesses do not meet societal expectations of proper corporate conduct, they may face backlash through actions such as product boycotts, as seen in cases involving the garment, footwear and tech products sectors.

Societies' expectations are captured succinctly by international organisations, such as the UN Sustainable Development Goals (SDGs), which recommends 17 focus areas that businesses should work towards in order to achieve sustainable development (Ed: see page 20 on the SDGs).

Fostering technological innovations

The sad fact is that too many businesses have operated with minimal consideration to

Number of Sustainability Reports published globally



Source: GRI database
*Updated as of 12 June 2017

sustainability. In addition, developments of processes, technology, products or services have also not taken into proper account the impacts to the environment and society. Yet technology provides an opportunity for companies to innovate and create new solutions that are based on and driven by sustainability.

Many businesses have successfully transformed their business strategies through sustainability-related innovations. IKEA, for example, created a US$1 billion business from energy-saving LED and solar panel products. Nike's *Flyknit* line of products that utilises recycled plastic bottles has also brought in more than US$1 billion in sales while diverting more than 180 million bottles from landfills and avoiding 3.5 million pounds of wastes from regular cut-and-sew footwear.

In Singapore, the push for sustainability has led to the emergence of a new cleantech industry, with applications in areas such as food waste.

Food waste contributes around 800,000 tonnes to Singapore's total waste and only 13 per cent of it is recycled. Food waste is organic matter with high moisture level, making incineration an inefficient solution. This has led to innovations and technologies being introduced to address this particular food waste problem, including some that can convert food waste into energy which can be either used onsite or fed into the grid. Not only does this technology reduce reliance on landfill, it also generates cleaner energy for its users while significantly reducing the space needed for disposing the food waste.

Accessing responsible investment funds

The quantum of responsible investments funds in the world has grown tremendously in recent years. In the US, ESG assets have nearly doubled from US$4.8 trillion in 2014 to US$8.1 trillion in 2016. This pool of fund is increasing and businesses are poised to access them if they have the sustainability credentials to qualify for them.

Locally, the Guidelines on Responsible Financing (2015) by the Association of Banks in Singapore has set the minimum standards on responsible financing to be integrated into banks' business model. Borrowers will then need to be able to meet these standards of responsible financing.

A more specific responsible investment product that is trending internationally and locally are green bonds. They give investors the assurance that the funds would be used on projects that deliver environmental and societal benefits.

(Ed: more detailed information on responsible financing and green bonds can be found in the article, "Responsible Financing to Enhance Financiers' and Borrower's Accountability" on page 50.)

In summary, sustainability business looks to be the way forward for businesses. Aside from the confluence of factors that are driving business to be more eco-conscious in the way they operate, sustainability also creates new growth opportunities for companies and brings about closer relationships with their stakeholders. ■

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