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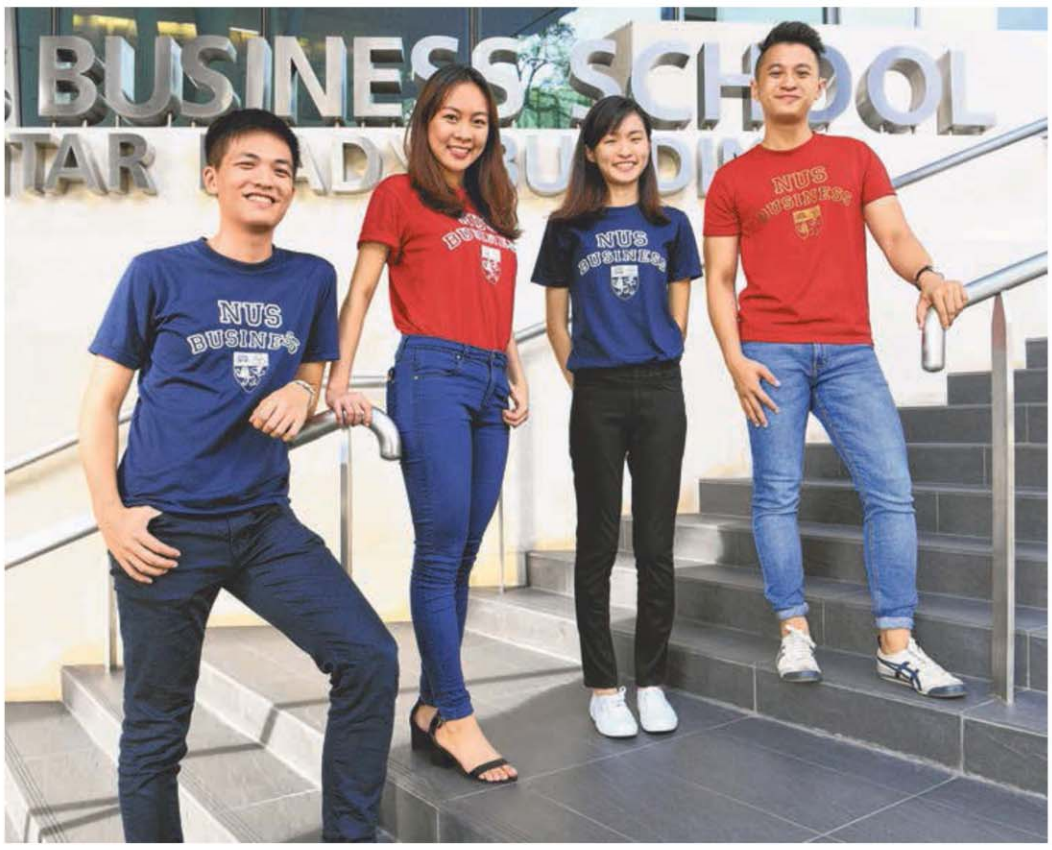
Getting more firms to do well by doing good

Students' app feature helps raise awareness of sustainability investing

Sue-Ann Tan



The winning team, comprising NUS Business School students (from far left) Henry Wat, Germaine Tyo, Joey Ho and Oh Chin Keong, proposed to increase the levels of sustainability investing by partnering key opinion leaders and universities to change mindsets. ST PHOTO: KHALID BABA

Four students who devised an app feature that makes investors and companies more aware of sustainability reporting have clinched the top prize at a recent university business competition.

They beat about 200 other students in a hotly contested event that aimed to raise awareness of the importance of sustainability investing.

Some businesses are already employing sustainability investment strategies and this trend is set to grow, especially with new regulations in place, experts say.

Associate Professor Lawrence Loh from the National University of Singapore (NUS) Business School, who was a judge in the competition, said: "The starting point is sustainability disclosure or reporting.

"Right now, the estimate is that only half of the listed companies are disclosing something on sustainability. This is gaining a lot of traction in Europe and the United States, for instance, and in Singapore, regulation is catching up to help companies get on board."

A report last year, in which Prof Loh was the lead author, cited a study which found that out of 502 companies listed on the Singapore Exchange (SGX) mainboard, only 186 or 37 per cent reported on sustainability.

This is why Prof Loh thinks it is important for students especially to learn about sustainability investing: "From an educator's viewpoint, I think the main thing is to complete the education for the students.

"Sometimes, in our courses, our focus has been driven to the profit return aspect. But sustainability is something that is non-financial and goes beyond pure economics."

Sustainability investment, in broad terms, refers to entities such as businesses and funds making the world a better place. It can be reflected in such aspects as improving the environment or creating social change.

Prof Loh added: "For a long time, by design, businesses were profit-maximising and that is something that has held true for a few hundred years.

"Only in recent years, sustainability came about and profit maximisation became not the natural starting point. Businesses see that they can achieve both profits and sustainability at the same time."

The competition, which was organised by the SGX and NUS Business School and held last month, asked students to create a strategy to increase the level of sustainability investing in locally listed companies, and offered a $2,000 cash prize.

The winning team – NUS Business School students Germaine Tyo, 21, Joey Ho, 21, Oh Chin Keong, 23, and Henry Wat, 23 – proposed to increase the levels of sustainability investing by partnering key opinion leaders and universities to change mindsets.

They also proposed a new "sustainability" tab to be included on the SGX app. This would be a go-to platform for comprehensive environmental, social and governance (ESG) data and key performance indicators on a per-industry basis.

The trading platform can be enhanced by providing key ESG metrics to investors.

Wealth managers and trading platforms should also be required to provide ESG footprint scorecards of their investors' portfolio. This will help investors visualise their ESG impact and continue their efforts in the long term.

Mr Oh said: "The global investment landscape and attitudes towards sustainability investments are evolving rapidly.

"Sustainability investments are increasing in relevance and appeal for institutional investors. We hope to debunk the myth that sustainable investments will compromise financial returns, and encourage public investors and companies to tap these emerging opportunities."

Ms Tyo added that the team also learnt more about sustainability investments along the way. "When we first started, we did not fully understand what sustainability investing entailed," she said.

"Through this experience, we realised there were knowledge gaps from an investor's point of view, despite the various initiatives by the SGX.

"Understandably, the presence of these gaps is due to the nature of sustainability investing, where it is difficult to evaluate ESG efforts and make sense of available data."

The students' end-to-end solution – making information easily accessible and available to firms and investors – is especially timely as the SGX's new regulations on sustainability reporting are being put in place.

In 2016, it ruled that companies should produce a sustainability report within five months of the end of their financial year.

Firms producing their first report get 12 months, so the first reports are expected at the year end.

Mr Michael Tang, head of listing policy and product admission at the Singapore Exchange Regulation, said the rule will impact about 700 companies listed on the SGX.

"At that time in 2016, there were several episodes of haze and it shows the importance of making sure that businesses conduct themselves responsibly in a way that doesn't bring about such issues to society at large," he said.

"There are also manufacturers which discharge waste in bodies of water and cause problems, for instance.

"We observe that it is also a global trend that companies are considering the effects they have on the environment and society."

Assistant Professor of finance Aurobindo Ghosh from the Lee Kong Chian School of Business at Singapore Management University said the trend of businesses and investors being more interested in sustainability is part of the incremental process of people becoming more aware.

"People now think of issues like climate change, and governments are looking out for the disenfranchised," he added.

"Singapore is very much moving with the global trend by putting sustainability forward as a metric, so investors can see how clean and sustainable a business is. Once this information is put out into the public domain, businesses can also compete to be better and put in the effort."

Mr Jakob Nilsson, head of business development for Asia Pacific at Hermes Investment Management, said that 10 years ago, the value of considering ESG risks was seen as adding little more than a "feel-good factor" to investment returns.

"Since then, we have seen attitudes changing on a global scale. ESG is increasingly becoming a core concern in many different regions," he added.

"In Asia, specifically, we have seen a remarkable flurry in the introduction of stewardship codes or guidance codes, which occurred between 2014 and 2016, covering various countries from Japan to Thailand.

"Many of the largest asset owners in Singapore are beginning to recognise the threats of climate volatility, as well as the opportunities that creating a more sustainable and resilient system can offer."

Mr Pierre DeGagne, head of funds selection at DBS Private Bank, said investors are showing interest in its ESG products, such as the Women's Livelihood Bond, which launched the second tranche of its programme in September.

The programme will fund enterprises in South and South-east Asia, and aims to help one million women move from subsistence to sustainable livelihoods.

The first Women's Livelihood Bond raised US$8 million (S$11 million) and closed in July last year.

Mr DeGagne said: "Among our clients, we do see growing awareness of the potential in making good investments that do well for the world, both socially and environmentally."

Prof Ghosh said people are also starting to see the returns, adding: "There is more work that shows that, in the long term, sustainability does pay off.

"Typically, it was thought that trying to protect the environment would put a cost on the industry and decrease profit, but mindsets are changing.

"When there is a certain pollutant being released by a business, the quality of life goes down for the community and there will also be a poorer workforce, which doesn't help companies anyway. It's about doing well by doing good."

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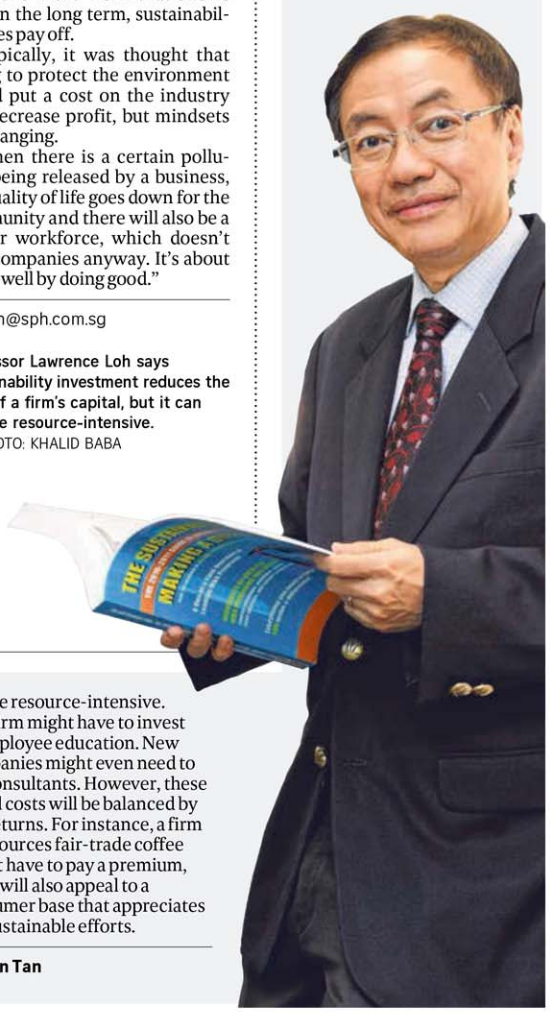

Professor Lawrence Loh says sustainability investment reduces the cost of a firm's capital, but it can also be resource-intensive. ST PHOTO: KHALID BABA

Three approaches and three As

There are three types of sustainability investment as outlined by the National University of Singapore Business School's Associate Professor Lawrence Loh:

- Heuristic approach: This form, sometimes known as "negative screening", involves ruling out businesses that deal with products or processes that can impact society or the environment negatively. This would mean not investing in firms that make firearms or deal with tobacco.
- Impact investing: This means looking at particular activities of the companies that can meet very specific goals. They can be goals like reducing poverty, reaching a zero-hunger community target or cutting pollution. Having targets allows businesses to make particular decisions that can reach these clearly defined goals.
- ESG (Environmental, social and governance): A holistic approach, which moves beyond negative screening or impact investing, that is gaining traction. It could involve a property developer making best practices in space management and green buildings part of its processes from the outset.

Three parts of the process of getting into sustainability investment:

- Awareness: The business has to understand what it is about and why it is important.
- Acceptance: The business has to embrace it and see that it is in its self-interest, understanding that it is good for the firm and for everyone else at large.
- Adoption: The business has to put in place definite and real initiatives. This means it also has to internalise it into corporate practices, rather than just doing things because of regulation.

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Pros and cons of sustainability investment

There are pros and cons of sustainability investment, according to Associate Professor Lawrence Loh from the National University of Singapore Business School.

THE PROS

- Financial benefit: A 2017 report in which Prof Loh was the lead author showed that sustainability reporting is positively related to a firm's market value, and this relationship is independent of sector or firm status such as government-linked companies and family businesses. The results were based on studies among Singapore-listed companies.
- Reduces the cost of a firm's capital: Prof Loh noted that firms can get better deals if they are sustainable. When a company's market value increases, the cost of equity goes down and there are also more investors willing to pay for it.
- Risk reduction: Reports have shown that when firms are more sustainable, their risk profiles are also more manageable, said Prof Loh. Risks such as incurring regulatory action, consumer revolt, reputation risk, chance of corruption and lack of business continuity can be reduced when a firm has ethical practices.

THE CONS

- Possibility of "green-dressing" sustainability reports: When companies are pushed to report on sustainability, they might end up making token efforts or create an appearance of complying without actual action.
- Resource-intensive and might be costly upfront: Being sustainable can incur costs and be resource-intensive. The firm might have to invest in employee education. New companies might even need to get consultants. However, these initial costs will be balanced by the returns. For instance, a firm that sources fair-trade coffee might have to pay a premium, but it will also appeal to a consumer base that appreciates the sustainable efforts.

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