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Headline: Making money responsibly is no longer a choice

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SINGAPORE (Aug 19): The call for better environmental, social and governance (ESG) practices among businesses is no longer niche or restricted to the echo chamber of a handful of money managers and European pension funds. Globally, impact investing — which weighs financial gains equal to social and environmental impact — is worth half a trillion dollars today. In the first half of this year, net inflow of sustainable funds totalled US$8.9 billion ($12.4 billion), up from US$5.5 billion in the whole of 2018.

Yet, the topic still makes for uncomfortable conversation among Singapore enterprises, even those helmed by young owners taking over from their family. Many small and medium-sized firms still view these do-good criteria as part of philanthropy, says Annie Koh, professor and expert on family entrepreneurship and finance at the Singapore Management University.

“A lot of them see ESG today as something they have to do and [that is] good to do. But a lot of it probably comes from [the focus on] charity or foundation,” says Koh on the sidelines of her inaugural lecture on family businesses’ attitudes towards innovation. This may take the form of corporate social responsibility commitments or corporate donations.

Koh’s study, which is not related to ESG, suggests that Singapore businesses are urgently trying to innovate to stay relevant across generations. The survey of 86 family businesses in Singapore found that 74% of the firms believe innovation is the key to staying ahead of stiff competition, while 83% of them found it challenging to scale their businesses because of the size of the local market. But as these local enterprises grapple with disruption and rising costs, it is becoming increasingly clear that sustainability needs to be part of the conversation, particularly as the next generation of business owners takes over.

In fact, Koh says “the writing is on the wall”, and companies will have to focus on ESG standards if they want to tap the global supply chain and international customers. This is especially true if they want to trade with MNCs, whose investors are putting pressure on them to take ESG seriously. For starters, consumer brands from Unilever to Coca-Cola have made efforts to track down and choose suppliers that source sustainably.

Singapore companies will be affected as they seek to expand abroad and form partnerships with large global corporates. At the same time, they worry about the costs that typically come with setting and tracking sustainability practices. That is an added concern for local, smaller enterprises that are already under pressure from the high labour and land costs in Singapore.

"SMEs will have to become more nimble to increase efficiency. And that comes from [innovating] the business," Koh says, but she sees this move towards better ESG standards happening only in the next five to 10 years.

In our pages this week, investors tell The Edge Singapore that they are increasingly paying attention to sustainability issues. Some socially conscious scions are beginning to incorporate ESG criteria into their businesses or investments. But there is still significant scepticism whether these socially responsible practices or investments will be worth their while.

For some, social-mindedness and environmental concerns have indeed paid off. Engineering, apparel and real estate group Sing Lun Holdings says ESG standards have helped the company mitigate risks. "It is a must-have, especially if you are operating in a developing economy," says third-generation CEO Mark Lee. A few years ago, during the anti-Chinese protest in Vietnam, the local community protected Sing Lun and its employees, in reciprocity for the social and community work the company had done in the area.

Sustainability practices can also be more meaningful to the younger generation of employees, and may result in lower employee turnover, says Derrick Yap, CEO of PBA Group. Staff retention has never been easy, especially in a tight labour market such as Singapore. The company allocates a portion of its yearly budget to let staff decide the social work they want to be involved in.

That said, the challenge ahead for SMEs would be to balance sustainability efforts and sustaining profits. It comes amid the twin pressures — of a global push towards sustainability, and disruption. There are some business owners who, perhaps facing resistance from shareholders or other interests, have chosen a different approach.

"Corporates need to be mindful of all shareholders. We need to find a balance and not do things just for our own sake," says Ron Sim, founder and CEO of V3 Group, which owns OSIM. "In certain [social] aspects that I feel the corporate [cannot do], I'll do it personally."