

COMMENTARY

Can firms do well by doing good?

“In the Asia-Pacific region, where an estimated two billion people live on less than US\$2 a day, there is a large opportunity for corporates to be profitable and make a genuine difference to the environment in which they operate. Indeed, we have already seen some promising examples begin to emerge, with Asian firms integrating CSR into their core business.”

By Zhang Weina

CONVENTIONAL business wisdom argues that the prime purpose of companies is to maximise shareholders' value. However, there is also a growing counter-argument that firms should also be more socially conscious, consider wider stakeholder opinions and follow a more balanced business model that can benefit both the bottom line and society.

Given the subjective nature of what this balance means, many organisations only realise what is expected of them when crises occur and action to limit damage is needed.

Take for example the slash and burn practices of Indonesian farmers, often used in the palm oil business. While the burning may be a cheap way to clear land, the resulting haze pollution it creates has triggered widespread public anger. For firms, including many multinationals, that support these farmers, the consumer backlash can result in a loss of business.

In an effort to strike a balance between financial performance and public expectation, many firms have set up departments in charge of corporate social responsibility (CSR). However, these divisions often find themselves executing campaigns for public relations and reputation-building purposes rather than being an integral part of the business.

Is there a better way – can businesses do well by doing good?

In recent research at the National University of Singapore (NUS) Business School, we examined CSR performance data from 2,542 public firms across 44 countries over a five-year period to determine whether and under what cir-

cumstances CSR creates or undermines a firm's value.

For each firm, we looked at scores provided by MSCI analysts, rating performance in three categories – environmental, social and governance. These evaluated factors such as impact on climate change, use of natural resources, pollution and waste generation, treatment of human capital, consideration of product liability, occurrence of stakeholder opposition and corporate governance.

Of the three categories, our study showed that the positive relation between environmental performance and firm value was the highest. More importantly, in developing regions, we found that good performance in all three categories can raise the positive relation by more than 10 times.

This suggests that in the Asia-Pacific region, where an estimated two billion people live on less than US\$2 a day, there is a large opportunity for corporates to be profitable and make a genuine difference to the environment and society in which they operate.

Indeed, we have already seen some promising examples begin to emerge, with Asian firms integrating CSR into their core business.

Telecoms firm Singtel, for example, has been recognised and received several awards locally and internationally for creating a business model that benefits both its bottom line and society.

Five years ago, Singtel's leadership decided to shift its approach to CSR, moving from an altruistic to a strategic approach where initiatives are aligned with their business activities. Under this approach, the firm carefully selects and develops business-related CSR activities that both

solve environmental and social issues, and also save costs and/or improve profits.

One early step was to introduce a Supplier Code of Conduct, setting out a minimum standard of values and practices that all firms in Singtel's supply chain were expected to meet. These include, among others, specific standards in areas such as labour rights, health and safety, environmental management and combatting corruption.

REWARDS OF CSR ENGAGEMENT

Another recent example, launched last year, is ReCYCLE, Singtel's e-waste recycling programme developed in collaboration with SingPost, which enables the public to do their part for the environment by recycling their electronic waste.

These initiatives and their impact are communicated to Singtel stakeholders via an annual sustainability report.

However, this is not to say that it is easy to do good and do well at the same time.

One of the challenges many organisations face is the fact that they cannot choose their line of business. Some industries, such as palm oil and paper, are considered “bad” because of their environmental impact, and thus they are subject to greater public scrutiny. However, there is a silver lining.

In another study with colleagues at NUS Business School, we found that the market tends to over-reward firms who are active in engaging in responsible CSR activities even if they may also have acted irresponsibly or happen to be a “bad” industry. This suggests that firms with a poor reputation, but who develop innovative approaches to CSR, can still overcome public bi-

ases and see their value increase.

Besides the economic rationale for firms to step up their focus on CSR, there is also increasing pressure from governments and regulators requiring companies to do more.

In India, for example, since 2014 the government has required each firm to set aside 2 per cent of its net profits for social development. And here in Singapore, the government has announced a carbon tax of \$5 per tonne of greenhouse gas emissions, starting from 2019.

At the same time, responding to consumer pressure, more and more institutional investors are taking into account firms' CSR activities in their investment decisions. One leading example is the Principles for Responsible Investment, to which almost 2,000 organisations such as asset owners, investment managers or their service providers have signed up around the world with US\$81.7 trillion assets under management.

Going forward, it is pertinent for firms, especially in the Asia-Pacific region, to be aware of the possibilities that a strategic approach to CSR can bring in terms of adding value to the firm as well as to the community.

By making a conscious and deliberate effort, and focusing on innovative solutions, more firms can reap the benefits of doing well by doing good.

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