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The impact of projects such as BlueAcres' horticultural programmes for individuals with moderate autism go beyond mere numbers. PHOTO: BT FILE

Showing sustainability impact will silence the sceptics

Adding economics to ESG can demonstrate that companies can pursue green initiatives and be financially viable. BY LAWRENCE LOH AND ANG HUI MIN

TOP-DOWN scepticism in the US about environmental, social and governance (ESG) issues has led to worldwide repercussions.

Since US President Donald Trump was inaugurated in January, he has passed executive orders and policies that are detrimental to environmental and social protection.

An analysis by *The Guardian* found that within 100 days of Trump's inauguration, there were 145 actions relating to loosening environmental regulations and increasing the use of fossil fuels.

International environmental agreements and frameworks, such as the Paris Agreement, were dismissed. Just recently, in August, a net-zero framework for the global shipping sector was rejected.

On the social front, US government diversity, equity and inclusion programmes were deemed "wasteful", with moves to cut these programmes and related staff.

The backlash against ESG continues. Some Republican states, such as Texas, have rolled out policies against firms' pro-ESG investing strategies.

There were also media reports of an exodus of banks from the Net-Zero Banking Alliance, a global initiative in support of the Paris Agreement. The banks that have announced their withdrawal include not just US banks, but also those from Europe and Japan.

The examples seemingly illustrate scepticism for ESG because there are no economic benefits. Does this mean game over for ESG?

Add economics

In our opinion, it is still game on for ESG. We just have to add a second "E" – for economics – into the equation, such that it becomes EESG.

The EESG approach allows companies to cater for economic viability: First, they have to survive financially; second, they can use profits to drive ESG initiatives.

This approach also helps firms gain more profits. ESG initiatives, such as water- and electricity-efficient installations, lower utility bills and contribute to savings. Studies have also shown employee well-being being positively linked to reduced absenteeism and increased productivity.

In addition, two studies on Singapore-listed companies, co-authored by the Centre for Governance and Sustainability (CGS) at the National University of Singapore Business School, have found that sustainability reporting is positively correlated with firm value and brand value.

Enter impact

From the EESG lens, the impact of companies' actions can be evaluated in a holistic way. Companies should strive to create both economic and ESG impact.

This principle also aligns with the double materiality approach in sustainability reporting. Introduced from the European Union, the approach requires companies to report their impact on the environment and society, in addition to how sustainability matters will affect their financial performance.

Showing impact in terms of EESG domains will rally more support for ongoing initiatives, winning over ESG sceptics.

Role of businesses

How can businesses best generate impact?

It begins with their definition of what value means. The definitions can be varied. Some will root for the cause of creating jobs for the marginalised. Some make it their mission to make education accessible to all. Others want to reduce food waste and create circular economies. The process of generating impact continues.

In this process, businesses should also engage with stakeholders to discuss their needs, so that their actions can deliver the best impact. The engagement process will also earn them credibility and trust.

The importance of demonstrating impact need not be elaborated further. But firms need to be careful of two potential pitfalls: greenwashing and greenhushing.

Greenwashing refers to the exaggeration of green credentials or benefits of the products or services. Many firms have been warned or fined by advertising regulatory authorities for overstepping the greenwashing line.

Toeing the line is easy. Firms just need to provide evidence of their green claims in their marketing and consider the full environmental impact of the entire product or service during its life cycle.

Greenhushing refers to firms' downplaying their environmental efforts for fear of criticism. When firms greenhush, they lose opportunities to engage stakeholders, share best environmental practices and maintain the sustainability momentum.

It's impact that matters

Showing impact can also go beyond mentioning the inputs and outputs, such as number of events organised and number of attendees. More focus can be placed on showcasing outcomes and impact.

Take, for example, BlueAcres, which was named the Impact Enterprise of the Year in the small and medium-sized enterprise category at last year's Sustainability Impact Awards, where CGS served as the knowledge partner.

The aquaponics firm had offered horticultural programmes for individuals with moderate autism on the rooftop of St Andrew's Autism Centre. The outcomes and impact were that the students gained valuable skills, such as farming, and were able to contribute back to society. At the same time, half of the proceeds from selling the farm produce went back to the school.

Showcasing these impacts has the potential to garner more funding and resource support for EESG initiatives.

Role of reporting

This brings us to sustainability reporting. A good sustainability report can showcase a company's impact.

However, one should note that sustainability reporting is not an end in itself. It is a means with two important functions.

Prospectively, firms can use the process of sustainability reporting to set future plans, especially concrete targets. Retrospectively, firms can use sustainability reporting as a means to evaluate the impact of their past actions.

In sum, sustainability reporting allows firms to reflect on the past and plan for the future, which is an important step for progress.

Many tensions in the world are ultimately about value (E) versus values (ESG). At first glance, criticism about ESG and firms' withdrawal from climate alliances form a backlash against ESG.

But perhaps there is no such thing as an ESG backlash. The pendulum is swinging between ESG and E as companies try to find the sweet spot, one that allows them to cater for both economic viability and ESG contributions.

Once the sweet spot is identified, firms' actions will yield lasting and optimal results. With evidence of sustainability impact, including economic impact, sceptics should fall silent.

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Employee well-being is positively linked to reduced absenteeism and increased productivity, studies show. PHOTO: YEN MENG JIIN, BT