Dear Mr Sid

How sustainable is sustainability, anyway?

First, it was CSR, now it is sustainability. What is the difference between the two anyway?

And what does sustainability really mean? Shouldn't all companies be sustainable in the sense of being financially sustainable and maximising value for shareholders?

However, it seems that many people are interpreting "sustainability" to mean caring for the environment and the community. Shouldn't that be the government's responsibility? For an individual company to do more by way of being environmentally friendly, disadvantages it, relative to its competitors.

Wasn't it Milton Friedman, the famous economist who said that "the one and only social responsibility of business is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game"?

I am a director of a finance company. We do not have to worry about the environment. We practise good CSR. We give money to the ST School Pocket Money Fund when we have good profits. (To be frank, it also gets us some good publicity in *The Straits Times*.) Is that not enough?

The important thing is that we are currently profitable and will pay good dividends to our shareholders. However, with the gloomy economic outlook, we worry if we can sustain this.

Unsustainably yours

Profit Is King

Dear Profit Is King

Your quotation from Milton Friedman is accurate.

What Friedman said in 1970 in a *New York Times* article "The social responsibility of business is to increase its business" pretty much became the gospel for the "maximising shareholder value" movement. Although Friedman was merely repeating what was already set out in his book, *Capitalism and Freedom*, which was published ten years earlier, it was the *NYT* article that propelled his thinking into the popular consciousness for the next 40 years.

Friedman's view was simple: Every business has only one social responsibility and that is to make as much money as it can for its shareholders. Of course, it has to do so within the rules of the game which are created by the government. If the government wants to protect the environment or the community, that is fine. It should then simply set the rules to do so. That way, it creates a level-playing field for all. For any company to do more than the rules, is unfair to that company's mission of maximising profit for its shareholders.

To be sure, Friedman's advocates were very respectable. They included the well-respected magazine, *The Economist*, which once declared that corporate philanthropy is a "morally dubious transaction" because it is "charity with other people's [shareholders'] money". So, if you follow that argument through, in your case, your company should not be donating to the ST School Pocket Money Fund (or any other charity). Instead, it should be returning the money to your shareholders who can decide on their own which charities they want to give to, if at all.

However, Friedman's philosophy is now not only out of vogue, it has been condemned in many quarters. In 2013, Steve Denning tore apart the "tragically flawed premise of maximising shareholder value" in *Forbes* with "The origin of 'the world's dumbest idea': Milton Friedman", which he followed up in 2014 with, "Why the world's dumbest idea is (finally) dying".

New capitalism

Why the 180-degree shift in attitude and thinking? Well, take your pick: climate change, growing income inequalities, the global financial crisis... The list goes on.

"Brute capitalism", that is, capitalism carried to excess by the mantra of maximising shareholder value, is being blamed for all these ills.

In its stead, a new form of capitalism is emerging. It goes by different names – moral

capitalism, the sufficiency economy, virtuous capitalism, and so on – but it has two central tenets:

- Companies should meet the needs of not just shareholders, but other stakeholders such as investors, customers, suppliers, employees, the community and the environment.
- Companies and the people who run them should focus on values (both human and community), and not just value (profits and economic).

These twin tenets tie in neatly with the intentions of corporate social responsibility (CSR) and the sustainability movement.

CSR

Friedman's advocates have long been at odds with those who champion CSR. But it is unfortunate that many CSR supporters have tended to equate CSR with corporate giving. It is not that giving is wrong, but giving, per se, is actually an optional component in the definition of CSR. Let me explain.

CSR is about good corporate citizenship. It is about the business committing to address the economic, environmental, moral and cultural concerns of the communities in which it operates. This commitment should be actioned by progressive initiatives such as enlightened labour practices, ethical conduct, environmental responsibility, and, of course, corporate giving. In other words, corporate giving is not the basis of CSR, but the icing on the CSR cake.

CSR is therefore about balancing the interests of the different stakeholder groups within and outside the company.

Sustainability

Sustainability, on the other hand, seeks to balance resource usage over time. It also goes further than CSR to require the company to respond to the interests of its stakeholder groups.

The roots of the sustainability movement can be traced to concerns of climate change, environmental degradation and overconsumption, and how life on planet earth will be unsustainable for humans unless there are major changes to the way we all currently work and live.

Thus, in 1987, the World Commission on Environment and Development (also known as the UN Brundtland Commission) defined sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs."

However, as other societal concerns such as the growing income divide and labour exploitation bubble to the surface, emphasis on the social and governance aspects of good corporate citizenship became included in the sustainability agenda.

What constitutes sustainability is now often been defined in terms of the 3P's: planet, people and profit or, alternatively, ESG: environment, social and governance.

You will notice that , under this model, making profits is part of being a sustainable enterprise. It is just not the be-all and end-all of an enterprise as in the Friedman model.

Indeed, these days, many companies view CSR as being the social part of sustainability, the "S" in ESG.

Applicability

In other words, the modern view is that sustainability is an important and relevant part of every company. All three aspects of ESG apply in different measures to a company.

So to answer your question as to whether you need to be concerned with the environment as a director of a finance company, the answer is "yes".

In general, environmental considerations impact many common aspects of corporate life such as energy consumption, waste and recycling.

In particular, if your company is to engage in responsible finance (which you should), then you need to consider the elevated risks that your clients in certain industries (e.g. agriculture, chemical and, oil and gas) face as a result of their adverse impact on the environment. The Association of Banks in Singapore has issued guidelines for responsible financing based on the principles of disclosure, governance and capacity building. Ian Hong explores these matters in his article, "Responsible financing to enhance financiers' and borrowers' accountability" on page 50.

Meanwhile, congratulations on your company doing so well and being able to pay a good dividend to your shareholders. May you continue to do so on a sustained basis.

Yours sustainably

Mr Sid ■

Who is Mr Sid?

Mr Sid is a meek mild-mannered geek who resides in the deep recesses of the reference archives of the Singapore Institute of Directors. Burrowed among his favourite Corporate Governance Guides for Boards in Singapore and other resource materials, he relishes answering questions from SID members about corporate governance and directorship matters. But when the questions get tough, he transforms into SuperSID and flies out to his super network of boardroom kakis to find the answers.

Mr Sid's References (for this question)

Board Guide

Section 4.10: Corporate Social Responsibility and Sustainability

Appendix 4K: The Evolution of CSR and Sustainability

Section 7.12: Community

Board Risk Committee Guide

Section 5.11: Sustainability Reporting

Boardroom Matters

Vol 1, Chapter 46: Towards a New Normal for Business, by Robert Chew

Vol 1, Chapter 50: Embracing the "New Capitalism", by Graham Owen

Vol 3, Chapter 47: For Whom Shall Boards Govern?, by Lawrence Loh

Vol 3, Chapter 48: Improving Social and Financial Bottom Lines, by Patrick Liew

SID Directors' Bulletin

2014 Q3: The Emergent New Capitalism, by Stephen B. Young

SID Directors' Conference Book

2014: Get Ready for the Breakthrough Decade, by John Elkington

2014: The Capitalism We Need, by Constant Van Aerschot