



Professor Ang Hak Seng

# Social Entrepreneurship: ESG For Charities Part 1

## Doing Good, Doing Right



- ▶ All three aspects of ESG (environment, social, governance) are vital to ensure organisational success.
- ▶ Among the many charity stakeholders, there are three main groups that charities will need to involve for ESG: the charities themselves, the intermediaries and the community.
- ▶ There is room for charities to improve in the area of ESG. In turn, it will contribute not only to doing good but doing it right.



### IN THE PAST FEW DECADES, ESG'S RISE TO PROMINENCE HAS BEEN TREMENDOUS.

Coined in 2004, the concept has gained widespread acceptance around the globe. Within the Private sector, ESG practices have been widely adopted by companies that are often required to do so at the behest of their stakeholders, such as investors and customers. However, the movement has yet to gain the same momentum here in the People sector.

Today, it is not enough that charities intend to do good work; we must also ensure that the way we conduct our events is held to high standards of governance and ethics. As such, a hot new topic of discussion for charities is ESG. While ESG might be a norm for the Private sector, the People sector may not be as familiar with the concept. To better understand the role that ESG can play for charities, I conducted some research through two methods – first, through literature review and second, through interviews with selected social service agencies. I shall present my findings in a two-part article.

This first part seeks to answer the 3Ws of ESG – the ‘why’, ‘what’ and ‘who’ of ESG for Charities. The second part will elaborate on the ‘how’, and the ESG solution for charities.

### THE 3WS OF ESG FOR CHARITIES

#### Why ESG for Charities?

Charities may ask, “Why is ESG relevant to us?” During the Charity Governance Conference 2022, a poll conducted before the presentations showed that only a quarter of the 600 charities present were initially interested in ESG. This corroborated my research on ESG for Charities, which indicated that many of our charities do not actively practise ESG. There are three main reasons for this: firstly, they may perceive ESG as being too expensive because it may involve the procurement of additional equipment like solar panels and electric vehicles. Secondly, charities may believe that positive ESG practices would not have a significant impact on their reputation. Lastly, charities may believe that their stakeholders do not care about ESG.

However, the above perceptions about ESG are unfounded as people do care about ESG (Figure 1). The first group that cares are the stakeholders of charities, like donors, volunteers, and beneficiaries. In fact, charities which do not adopt eco-friendly practices may not attract sufficient donations or volunteers. Beneficiaries may also avoid seeking

help from such charities. The second group of people that cares would be the regulators, specifically, the government. It is especially concerned with the compliance of ESG by charities. This is evident through the slew of nudging measures that have been put forth by regulators. These measures include codes and laws which ensure that ESG compliance is met. For example, it is an offence under the Environment Act to pollute the water and hence, charities which break this law would be prosecuted and charged accordingly. The last group of people that cares is society.

Due to the greater awareness about ESG, the concept has been widely accepted as a societal norm for all of us to follow. As such, if organisations do not comply with ESG, they are deemed to be not socially responsible, which will negatively impact their reputation.

#### What is ESG for Charities?

When I embarked on my journey to understand how charities perceive ESG, I quickly realised that many were unaware of what the acronym ‘ESG’ stands for, despite the sector being a key practitioner of ESG. Even among those who know ESG, there is some confusion as ESG has many different definitions. It is important for us to have a common terminology and framework and hence, Singapore’s definition

FIGURE 1 THREE MAIN REASONS WHY CHARITIES SHOULD CARE ABOUT ESG

## Why should you care about ESG?

People care



### Stakeholders care

Increasingly eco-friendly



### Regulators care

Incentives and Disincentives



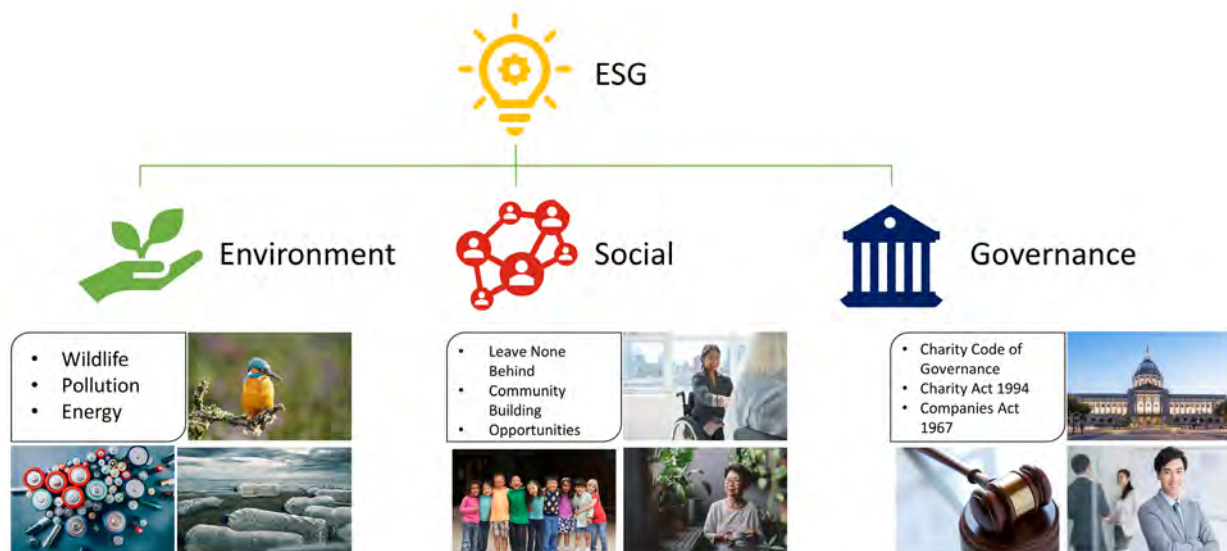
### Society care

Social Good above everything else

PHOTO: SHUTTERSTOCK

As organisations are created to do social good, it is paramount that the charity sector understands the dire need for ESG.

FIGURE 2 BREAKDOWN OF WHAT ESG MEANS



of ESG for Charities is based on two documents, namely the Singapore Green Plan 2030, and Code of Governance for Charities and IPCs. For us, ESG is an acronym that stands for environment, social, and governance (Figure 2). All three aspects are vital to ensure organisational success.

**1) Environment.** This element deals with all the variables that could impact nature. Some topics that fall under this category include wildlife, pollution, and carbon. There are charities which are strong in this aspect of ESG as they focus on environmental issues such as protecting Singapore’s waterways, animals, and forests.

**2) Social.** This element seeks to explain all the factors that could impact our society, including equality and community building. This aspect is the strength of the People sector as, ingrained into our charities, is the ‘leave none behind’ mindset. We ensure that the young, not-so-young and young-at-heart are protected and taken care of. Charities by nature are meant to elevate those who are less fortunate in society. Hence, it is no surprise that this aspect of ESG is our speciality.

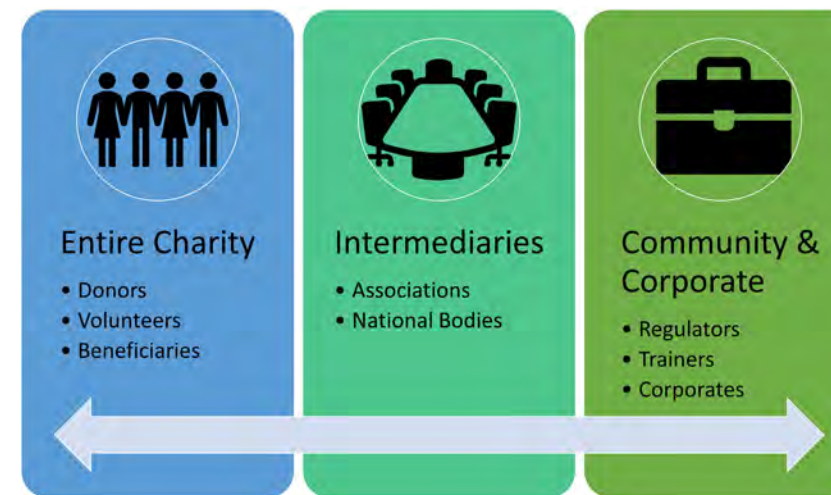
**3) Governance.** This element oversees all variables that could impact how an organisation is governed. Singapore’s charities are accustomed to this element, especially those which have attained the coveted IPC status, as we are used

FIGURE 3 THREE IMPROVEMENTS FOR ESG FOR CHARITIES



It is crucial for charities to be whiter than white to maintain the high level of trust we have with our stakeholders

FIGURE 4 THREE MAIN GROUPS OF STAKEHOLDERS INVOLVED IN ESG FOR CHARITIES



to complying with the Charity Code of Governance and the Charity Act. Furthermore, Singapore has the Companies Act or the Society Act for organisations, adding another layer of governance for the charities of Singapore. Hence, in terms of the basal level of ESG, Singapore’s charity sector has most certainly reached that goal.

However, I believe that the sector is still lacking in certain aspects of ESG (Figure 3). After all, there is always an opportunity for us to do ‘better, better-er, and better-est’.

**1) Environment.** All charities need to be eco-friendly, not only those which champion environmental causes. Furthermore, charities with environmental causes need to be more holistic and ensure that they support other environmental issues, to ensure that the whole ecosystem is protected.

**2) Social.** Charities need to ensure that our interventions are impactful to our beneficiaries as it is not enough to provide only basal levels of help. On top of that, we will also need to address other issues under the social element, such as diversity and inclusivity, to ensure that there are opportunities for everyone in the People sector and that everyone is taken care of.

**3) Governance.** We must be willing to go beyond the compliance of codes and laws, beyond leadership, and move towards ethics and stewardship. It is crucial for charities to be whiter than white to maintain the high level of trust we have with our stakeholders.

**Who is involved in ESG for Charities?**

Among the many charity stakeholders, there are three main groups that charities will need to involve for ESG (Figure 4). The first group are the charities themselves, including their donors, volunteers, and

beneficiaries. Once a charity determines that ESG is a key agenda, the process of adopting good ESG practices and policies would be smoother and its impacts more long lasting.

Beyond the charities, for the ESG movement to be successful, other stakeholders will need to be involved. The next group to be involved are the intermediaries, such as associations, national bodies, and the parent organisations that some charities are part of, as it is the intermediaries who would steer the vision of the group towards ESG.

The last group that will need to be involved in ESG for Charities would be the community. This includes the regulators of charities and, most importantly, the corporates. The power of the Private sector has yet to be fully harnessed by the People sector. In terms of ESG, the Private sector has been miles ahead of the People sector in terms of having better best practices. Charities can learn from them to do ESG cheap, good, and fast.

**CONCLUSION**

As organisations are created to do social good, it is paramount that the charity sector understands the dire need for ESG. It is not just about doing good, it is also about doing it right. In the second part of this article, to be published in the March issue of the journal, I will put together a framework on how charities can do ESG. Rest assured; we will walk the journey with you. ISCA

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