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THE SME SUSTAINABILITY ACTION GUIDE

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8th November 2022

The SME Sustainability Narrative

Sustainability is an important value-add for SMEs and is transitioning from a "nice to have" to a "must-have". Consumers, investors and regulators are increasingly displaying a preference for sustainable business practices and are consciously assessing businesses based on environmental, social and governance (ESG) criteria.

SMEs are generally more vulnerable to impacts from environmental and social issues but are equally more responsive to business trends and can create a positive impact on sustainable development. However, most sustainability approaches are tailored to Corporates and are disparate to approaches for SMEs. SMEs have a need for practical guidance and pragmatic approaches that consider SME-specific challenges and opportunities.

With this in mind, the UN Global Compact Malaysia & Brunei (UNGCMYB) set out to study Malaysian SMEs' approaches to sustainability and how important the sustainability movement is to them. The research was aimed at identifying:

How can sustainability be adopted by SMEs, and translated to business strategies?

What are the key opportunities and challenges faced by SMEs?

What are the best practices in SME sustainability?

This SME Sustainability Action Guide is the direct result of these efforts and has been designed specifically to provide guidance to SMEs looking to embed ESG into their business strategies and processes.

The Guide is based on the insights obtained from SME business owners and Chief Executive Officers (CEOs) via interviews.

Table of Contents

- **Acknowledgements**
- **Foreword - The SME Sustainability Narrative** 1
- **Table of Contents** 2
- **Winning With the SME Sustainability Action Guide** 3

- **Introduction to Sustainability**
  - > The Sustainable Development Goals 4
  - > Sustainability 5
  - > The UNGC 10 Principles 6
  - > ESG 8

- **Be Informed**
  - > An engine for sustainable growth 9
  - > Sustainability and Malaysia 10
  - > Push Factors for Malaysian SMEs to Pursue Sustainability 11
  - > Why Should SMEs Pursue Sustainability? 12
  - > Incentivising Sustainable SMEs 14
  - > Why Are SMEs Still Lagging in Adopting ESG Practices? 15

- **Take Action**
  - > How to start? 16
  - > SME Framework 17
  - > Climate Action 19
  - > Energy Management 22
  - > Water 24
  - > Waste 26
  - > Human Rights 28
  - > Living Wages 30
  - > Diversity, Equality and Inclusivity 32
  - > Anti-Corruption Policies 34

Case Studies 36
- > Promoting social progress 36
- > Good governance 36
- > Reducing Waste 37
- > Energy efficiency 37
- > Environmentally responsible products 37

Conclusion 38

Winning With the SME Sustainability Action Guide

This Action Guide offers SMEs:

1. An introduction to sustainability

2. Explanations on why sustainability makes business sense and testimonials from early adopters of sustainability

3. An understanding of the challenges and opportunities that SMEs can expect/prepare for in adopting sustainability

4. Actionable steps in the form of tools and best practices

The Sustainable Development Goals

Sustainability

Sustainability is defined as
"meeting our own needs without compromising the ability of future generations to meet their needs".

Sustainability means that companies have the responsibility to do business in an ethical way, respecting human and labour rights, and the environment.

Sustainability is the overall performance that companies should pursue, and enable SMEs to contribute towards achieving the SDGs. But the SDGs are not written in business-speak, and it can be hard for companies to relate and understand how they can contribute.

Therefore, a principle-based approach such as the **UNGC 10 Principles** are helpful for businesses to implement sustainability.

The UNGC 10 Principles

United Nations
Global Compact

The United Nations Global Compact (UNGC) was established in 2000 and is a voluntary body seeking to commit CEOs across the globe to adopting and implementing sustainability in their company operations in support of the SDGs.

Note:
UNGCMYB is the local chapter of the United Nations Global Compact, and drives the sustainability agenda in Malaysia and Brunei through various partnerships, programmes and tools (such as this Action Guide).

The UNGC introduced a set of Ten Principles as a guide for companies to embed fundamental responsibilities for human rights, labour and the environment, and anti-corruption policies into their business philosophies.

The image on the next page lists the **Ten Principles** and shows how they feed into the achievement of the 17 SDGs.

Companies that commit to the Ten Principles are in essence agreeing to create a culture of integrity and responsible policies and business procedures, not just for business longevity, but for a cleaner, more ethical and more equitable world.

The Principles-based approach can guide SMEs in setting policies on matters relating to human rights, labour, environment and governance.

This sets the tone for the company's overarching sustainability strategy, and from there the tone can be cascaded to all employees via training and awareness programmes with the goal of getting employee buy-in and inspiring them to take action.

The UNGC 10 Principles

THE TEN PRINCIPLES
of the United Nations Global Compact

HUMAN RIGHTS
LABOUR
ENVIRONMENT
ANTI-CORRUPTION

1. Support and respect the protection of internationally proclaimed human rights.
2. Not be complicit in human rights abuses.
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Support the elimination of all forms of forced and compulsory labour.
5. Support the effective abolition of child labour.
6. Support the elimination of discrimination in respect of employment and occupation.
7. Support a precautionary approach to environmental challenges.
8. Undertake initiatives to promote greater environmental responsibility.
9. Encourage the development and diffusion of environmentally friendly technologies.
10. Work against corruption in all its forms, including extortion and bribery.

Source: UNGC

UN GLOBAL COMPACT Network Malaysia & Brunei
SUSTAINABLE DEVELOPMENT GOALS

The value of sharing principles

ESG

ESG is a term often used in the business world. ESG comprises the 3 pillars of sustainability, standing for . These are the dimensions where companies must at the very least, and are as well expected to .

.

An Engine for Sustainable Growth

SMEs are major players in the Malaysian economy, contributing 37.4% to the country's Gross Domestic Product (GDP) and providing jobs for 47.8% of the workforce in 2021. Collectively, they're an economic force to be reckoned with and SMEs can make significant contributions towards the Sustainable Development Goals.

On the flipside, the effects of the Covid-19 pandemic on the SME sector have demonstrated the vulnerability of SMEs to economic shocks resulting from ESG issues. In 2021, MSME growth rate was a meagre 1% in comparison with the 4.4% GDP growth for non-MSME during the same period.

With global ESG assets expected to exceed $41 trillion and projected to hit $50 trillion by 2025, it is in the country's best interests to empower SMEs to become more ESG focused and attract investment.

Incorporating Sustainability into business strategies could improve the adaptability of SMEs, alleviate the pain of unfavourable situations, and more importantly, inspire innovation to take SMEs to greater heights.

contributing
37.4%
to Malaysian GDP

providing jobs for
47.8%
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SMEs are an economic force that can make significant contributions towards the Sustainable Development Goals

Sustainability and Malaysia

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