



Building sustainable supply chains

Small businesses play a big role in transition to net zero

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THE focus on sustainability has intensified as more governments and corporations make net zero pledges. But to hit their targets, they will need to ensure that their supply chains, which are generally made up of small businesses, are aligned to the green agenda.

This, say industry leaders, presents a good opportunity for SMEs to demonstrate their capabilities in – or their willingness to adapt – sustainable practices within their operations.

With increasing pressure from consumers for brands to be more socially-conscious and eco-friendly, HSBC Malaysia country head of commercial banking Andrew Sill notes that major brands and larger corporates are beginning to require their vendors and suppliers to seriously look into their supply chain to be more sustainable and to build-up the profile of their brands.

“Climate transition will impact all businesses, especially SMEs. As larger corporations embrace their own net zero targets, they are insisting their suppliers also comply to low carbon emission standards.

“So SMEs who do not embrace sustainability in their organisations will be non-compliant and might be phased out in the global supply chain,” says Sill.

While this may be an added burden on SMEs who are still trying to recoup sales to pre-pandemic levels, they may eventually be left with little choice but to comply.

Understandably, it will take some time for small businesses to acquire the relevant knowledge and expertise to drive sustainability in their operations – even larger firms are aware that such efforts will take years.

However, small businesses should start efforts in this direction in the near term as they recalibrate and re-strategise their operations post-pandemic.

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“SMEs who invest their time and resources in sustainable initiatives would find that they can achieve savings through efficiencies, grow



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their sales differentiation, build strong profiles in the process, and attract and retain talents of like-minded employees.

“They should look beyond the initial cost outlay on sustainability programmes and practices as the financial benefit would roll in through the efficient use of resources,” adds Sill.

At the recent SME SDG Festival 2021, Malaysia Venture Capital Management chairman Alizakri Alias similarly urges SMEs to have a mindset change. He thinks that small businesses should stop looking at sustainable practices from a mere cost perspective, but rather as an investment for the future of the firm.

With government-linked companies looking to make their supply chains more sustainable, SMEs that are ready to show their report card or are able to indicate that they are making plans in this direction will be at an advantage.

According to Alizakri, sustainability, along with digitalisation and changing consumer behaviour, will be among the main trends driving businesses in the near- to mid-term.

“But I would like to think that these are not mutually exclusive.”

He points out that once companies understand that customer behaviours are changing and are demanding for more convenience and sustainable practices, they will begin to respond by using technology to unlock the potential of digitalisation and sustainability in their business.

In tackling their own transition to net-zero, Alizakri advises SMEs to fix their basics and start collecting

their non-financial performance data.

“For example, these are data related to your employees, environmental performance, and even your suppliers. If they have their data, start collecting that as well. Prepare important policies, especially your human resources policy.

“And another simple aspect is in terms of your decision-making process. If you have a boardroom, look at your diversity (component). Get a woman on board and a younger person to help with your decision-making process,” he says.

Apart from that, businesses should identify and work on sustainable development goals that are relevant to their business.

And in line with the move towards digitalisation, companies should aim to leverage technology to track their performance in this area.

Notably, within a supply chain, it is not enough that a single company is integrating sustainable practices into their operations when their suppliers do not practise the same. In this regard, they will need to collaborate with others as well as observe their competitors’ transformation towards sustainability.

“When you want to collaborate, look along your supply chain. If you have smaller suppliers, look at how you can use your power of influence to also ask them to start transforming.

“But firstly, before you can even talk to others, you need to educate yourself. So start training in this and start changing your mindset in order for you to change the mindset of your collaborators along the value chain,” says Alizakri.

A report titled ‘Delivering Net Zero Supply Chains’ by Boston Consulting Group (BCG) and HSBC lists out several principles for businesses in their roadmap to transition towards emissions-free supply chains.

These are: rethinking product design, embracing collaboration, building the capabilities needed for change, investing in technological solutions and developing better data structures.

It notes that net zero supply chains may require a wholesale re-evaluation of how people use products and how they are made. This would require companies to share knowledge, technology, investment and resources to enable the change.

And as suppliers begin the net zero transition, they may find gaps in their skills and knowledge which will need to be filled. This can be done through collaboration and investment in training as well as through the use of technological solutions that can help reduce energy intensive manufacturing processes, switch to alternative fuels and enable methods of carbon capture to compensate for or neutralise emissions that the organisation has not yet reduced.

For sure, all this requires a robust system for gathering operational data across the supply chain.

However, smaller businesses will need to be assisted to get a grip on all this and to ensure that they get on the transition bandwagon.

BCG estimates that as much as US\$25 trillion (RM104.54 trillion) to US\$50 trillion (RM209.08 trillion) – between a quarter and half of the total global investment – will need to be directed to SMEs to help them make the switch.

“While not necessarily household names, BCG analysis estimates that SMEs can represent more than 90% of the organisations in any given supply chain. Delivering this investment to millions of fragmented SMEs represents a substantial challenge in terms of market access and risk appetite.

“Moreover, SMEs need to be provided with education, incentives, technology, and other resources to use these funds in the most effective ways to decarbonize their emissions.

“SMEs are also often of such small

scale that they tend not to reach the participation threshold for carbon pricing schemes recognised by government tax regimes. This means that SMEs are typically under the radar for country- or sector-wide targeted reductions.”

But the importance and opportunity for SMEs to progress the climate change agenda is gradually becoming more widely acknowledged.

Even in Malaysia, some effort by the government can be seen in this direction.

Under Budget 2022, Bank Negara will provide a Low Carbon Transition Facility with a fund value of RM1bil, which will be based on matching fund arrangement with participating financial institutions, to help SMEs adopt sustainable and low carbon practices such as increasing the use of sustainable raw materials and renewable energy.

HSBC’s Sill emphasises that collaborations between non-profit organisations, the private and public sectors as well as financial institutions will be key to helping businesses begin their net zero journeys, and to ultimately help drive and achieve Malaysia’s sustainability ambitions.

To this end, HSBC Malaysia has signed a memorandum of understanding with Climate Governance Malaysia (CGM), the Malaysian chapter of the World Economic Forum’s Climate Governance Initiative with the aim to educate the wider business community on the need to pave the way for a greener and more sustainable future and to achieve an increased awareness and capacity development amongst businesses in the country.

Sill notes that there are also many new opportunities for businesses to tap into to build future revenue streams.

These are in areas across renewables, energy efficiencies storage, food, agriculture, infrastructure and land usage.

“As new technologies and industries emerge, inadvertently many new opportunities around environment, social and governance will emerge as well. Businesses need to proactively spot and capture these opportunities and move along in tandem with this transition,” he says.