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# Prepare for sustainable trade

Sustainability is becoming a product differentiator and, increasingly, a licence to operate for businesses

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OPERATING a sustainable company is increasingly becoming an imperative for future business continuity.

As economic activities progressively resume with the easing of restrictions in most countries, companies will have to gradually work their way up a new sustainable standard to participate in future trade.

Notably, many businesses were forced to confront the fragility of their business models when Covid-19 hit and had to come to terms with adaptation and adoption of new models, methods and technology to survive.

This shows that traditional business models, particularly for smaller firms, are vulnerable to external shocks.

And if small businesses do not keep up, the sustainability barrier could be another external shock waiting to jolt them in the future.

"Sustainability has become important because globally, governments are setting their emissions targets. Malaysia is talking about being carbon neutral by 2050 but a lot of our trading partners, like the European Union, for example, are talking about being net zero by 2050. Singapore and China are also setting targets.

"This means that the rules of engagement of trade will change. In moving forward, and moving very fast, trade will now include the element of sustainable trade," says Faroze Nadar, executive director of United Nations Global Compact Network Malaysia and Brunei (UNGC).

This, elaborates Faroze, will essentially mean two things; buyers will start to look at low carbon sourcing and there will be increasing talk about socially responsible sourcing.

"So like it or not, beyond the price and quality of your products and services, sustainability will be the value add, first as a product differentiator and second, as a licence to operate."

He cites a report by Standard Chartered last year which notes that Malaysian businesses could lose up to RM269bil worth of procurement opportunities because they may not align to the climate ambitions of global buyers.

Faroze was speaking at the "Embracing

**"Actually, many good things that you guys are doing are already contributing towards your ESG journey. So don't be afraid that this is too overwhelming."**

Faroze Nadar

ESG Transformation" webinar organised by the Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor earlier this week. Other panellists at the forum were Sunway University Pro-Vice Chancellor (Research Engagement and Impact) Professor Mahendhiran Nair and IOI Corporation Bhd group managing director and chief executive Datuk Lee Yeow Chor.

Certainly, exporting companies will be the first in line to feel the pressures of meeting sustainability criteria, even more so if they play a part in larger companies' supply chains.

"But even if you think of yourself as a *jaguh kampung*, the pressure is going to come downwards because Malaysian institutional investors and corporates are also going to push this down their supply chains. So it's important that everybody comes onboard the environmental, social and governance (ESG) agenda," adds Faroze.

Nonetheless, small businesses shouldn't have to be overwhelmed by ESG.

In UNGC's recent engagement with a pool of local SMEs to gauge their ESG readiness, Faroze notes that most of them actually tick many boxes.

This includes having socially responsible operations, community development initiatives, digital tool utilisation, women empowerment approaches, fair wages, anti-corruption policies, and energy, materials and waste management as well as green procurement standards.

"When they came onboard, they, too, were worried because the mindset when it comes to sustainability is that it is expensive and complex. But actually, many good things that you guys are doing are already contrib-

uting towards your ESG journey.

"So don't be afraid that this is too overwhelming or that you have to redo everything. It is not. There are many starting points that you are already doing. The next step is how do you do it better and faster.

"One of the challenges I see for SMEs is, sometimes they have good products, but because they may not be aware of ESG or sustainability as a whole, they miss the opportunity of credentialing it towards ESG."

Given the lack of set rules for companies to follow, it is, understandably, a challenge for SMEs to identify which areas in their business need tweaking and where they have already meet the benchmark.

As there is no one-size-fits-all approach, a company's ESG strategy should be driven by the demands of its supply chains and what is important to the business and its stakeholders.

For example, food and beverage business owners may want to look at fair trade certifications when sourcing their ingredients and differentiating themselves by their food waste management; agriculture-based businesses may want to employ technology to drive efficiency and use organic fertilisers; waste treatment companies could utilise bio-based chemicals and leverage renewable energy to power their operations; retailers could look into using recycled packaging and fintech firms may want to target the underserved communities like the B40.

Such efforts could put businesses in a good standing with their customers and investors or bankers.

In this regard, SMEs also shouldn't down-

play the importance of efficiency in meeting their ESG aspirations, apart from helping their business profitability.

According to Mahendhiran, the ambiguity in ESG criteria is also driving companies to collect baseline data to guide their continuous improvement towards meeting global targets.

"Many big players have their own research and development (R&D) teams. This is where smaller players can leverage (public and educational) institutions that can jointly help them apply for (R&D) grants.

"This would also help them get the workforce in place. One of the challenges SMEs have is essentially getting the workforce and I think working with these institutions will give them access to financing, expertise and also future workforce for the organisation as they scale up," he adds.

Lee also reminds companies that employees are an increasingly important stakeholder for any business and ESG policies should also take them into account.

"You have to improve your employees' welfare so that you can create a brand to reduce staff turnover and attract talent," says Lee.

Nonetheless, one of the most important components for business owners in this ESG journey is to have a personal conviction of the value it would add to the business and its ecosystem.

"As individuals, we need to have personal values for sustainable business actions. We need to believe that we are doing the right thing by taking sustainability actions because this will then drive the business actions that will bring value for your organisation.

"If you are only driven from a regulations perspective, then all you are going to do is just tick the boxes. But the rule book for sustainability is evolving and it is moving tighter and faster. So if you only want to tick boxes, it (some moves) will also become obsolete fast.

"But when it is a personal value and a culture, you are always on your toes to make sure innovation is a part of it to drive your business to be more sustainable. And how do you start on this ESG journey? Just google your way. There is so much information out there for you to learn from and everybody is on the learning curve in this," says Faroze.