



Chapter 8

Global Institutions and ESG Integration to Accelerate SME Development and Sustainability

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ABSTRACT

Since the adoption of the Sustainable Development Goals (SDGs) by the United Nations in 2015, all its 193 member states committed themselves to implementation at the national, regional, and international levels. In particular, the private sector is called upon to play an active role in driving the integration of environmental, social, and governance (ESG) principles among businesses, including SMEs. Armed with adequate resources, global institutions can influence SMEs and lead the way in educating and providing them with sound guidance towards ESG adoption. In collaboration with the local government, global institutions can intensify their efforts in promoting ESG adoption among SMEs. This chapter looks at how SMEs can leverage global institutions for guidance, support, and good practices in charting ESG integration in their business operations, enabling them to achieve business sustainability in the long term. Moreover, this chapter will specifically draw on experiences of ESG integration by Malaysian SMEs.

INTRODUCTION

Environmental, social and governance (ESG) measures and disclosure have become increasingly important for businesses, underpinned by growing interest from investors at both the international and domestic levels, particularly large corporations, over the last few years (Mohammad & Wasiuzzaman, 2021). Numerous stakeholders, from government agencies to corporate investors to general consumers, have

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gained a broader knowledge of ESG and its importance to future generations. With this, the stakeholders expect to see progressive development on the implementation of ESG principles by businesses. This expectation has exerted pressure for companies, particularly those exposed to the developed nations, to emphasise ESG integration in their companies. SMEs that are dealing with multi-national corporations face systemic pressure in accelerating ESG integration into their businesses too. SMEs' implementation of ESG principles is critical in driving the company to sustainable value creation in the long term (Hu & Kee, 2021). This action will lead to the eventual attainment of the sustainable development goals (SDGs), spearheaded by the United Nations. Though SDGs are more thematic than corporate-centric, they can help SMEs align their company-specific ESG principles with broader societal and environmental goals. However, the traction among SMEs has been slow due to various reasons. Although many SMEs claimed to possess adequate awareness about ESG and its significance to businesses, most have not embarked on concrete ESG integration plans. Many SMEs do not see the urgency of such a matter. Many SMEs cited incremental costs, lack of awareness and inadequate resources for such implementation (Sommer, 2017)

The Covid-19 pandemic, nevertheless, has raised the awareness of the significance of ESG for more businesses, including SMEs. As the world continues to battle the fourth or fifth waves of the pandemic, many SMEs are making working from home a viable option and a sustainable means of operation. Working from home can boost employees' productivity and contribute to healthier employees who are less likely to take sick days. While the many benefits from working from home are apparent many SMEs faced unprecedented challenges, including difficulties in maintaining the safety and well-being of employees. When employees work from home amid the pandemic, SMEs are concerned about fading staff engagements due to a lack of face-to-face interactions that could impact productivity levels. The lack of direct interaction with the customers can also affect the overall customer relationships. Conspicuously, SMEs have encroached into ESG factors, some without knowing it. Moving forward, SMEs must engage more profoundly in ESG by leveraging option, supports and assistance from various stakeholders, including global institutions.

The primary objective of this chapter is to raise SME awareness on the significance of ESG adoption, enabling them to pursue business sustainability in the long term. This chapter discusses the hindrances faced by SMEs in implementing ESG strategy in their companies. It also elaborates the benefits SMEs can derive from ESG integration that motivates them to embark and accelerate their active involvement in ESG standards. This chapter will also deliberate how SMEs can leverage global institutions for guidance and support in charting ESG integration in their business operations. With the profound initiatives, SMEs can then implement their plans and accelerate their ESG journey. Here, the right approach in implementing the right ESG strategy is discussed for optimised results. This chapter will specifically draw on experiences of ESG integration by SMEs operating in Malaysia.

BACKGROUND

Despite the significance of ESG, SMEs are slow in adopting ESG principles in their businesses. The lack of in-depth understanding of the ESG approach partly explained that over two-thirds of companies are at a very early stage of the journey (51%) or are only planning to start the journey over the next one to two years (16%). Most companies consider ESG to be very much driven by government policy and regulation (79%) and watchdog and industry regulators (27%) (Ward & MacKenzie, 2020). Having such reservations, many SMEs would wait for the external stakeholders to force ESG implementation in

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