

# **ACCESS: SME ESG Index Assessment Guidance Document**



**Global Compact**  
Network Malaysia

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# Background

Meeting Environment, Social and Governance (ESG) criteria in the supply chain is becoming of increased importance to investors, Governments, and consumers. Corporates are expected to fulfill their due diligence obligations in supply chains, because ESG issues in the supply chain can carry significant material, reputational and operational risks.

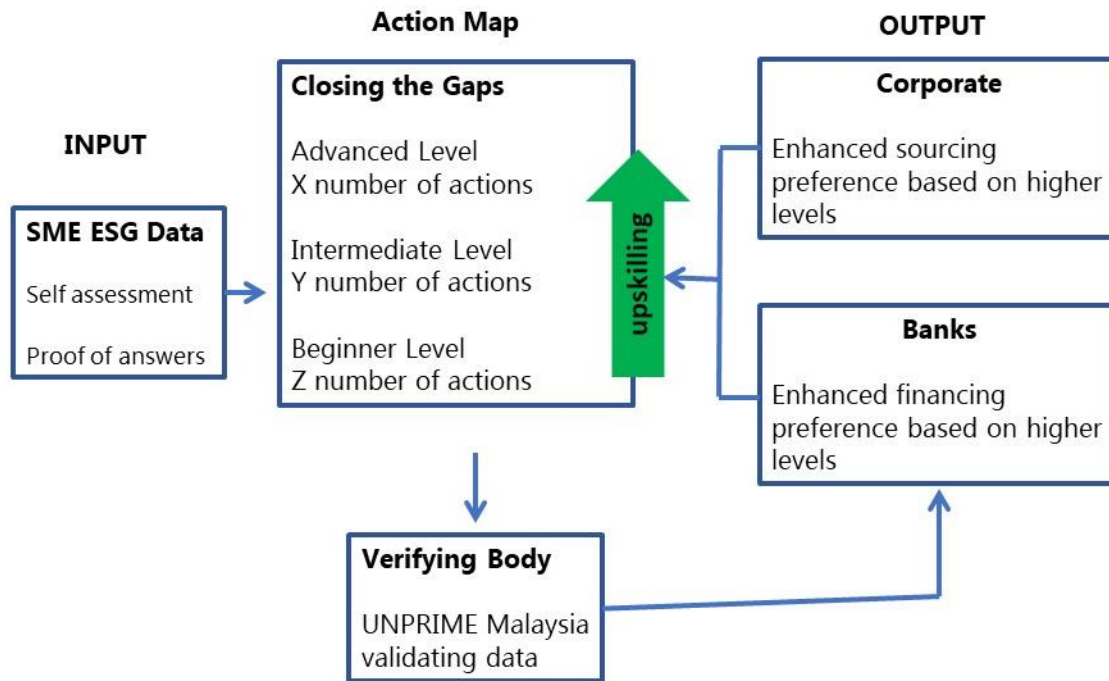
In Malaysia, we are also seeing a greater push from regulators and institutional investors towards sustainability. The Securities Commission Malaysia's recently updated Malaysian Code of Corporate Governance (MCCG 2021) highlights the important role of the board of directors and senior management in addressing sustainability risks and opportunities for the company.

With the rise in demand for corporates to create sustainable value chains, there is a need to identify and assess supplier's sustainability performance. Many suppliers are SMEs and they are highly integrated in corporate supply chains. Consequently, SMEs play a significant part in achieving sustainability from a Corporate's supply chain perspective.

## ACCESS Introduction

The first challenge for Corporates is how to assess their SME suppliers' sustainability performance. Most sustainability assessment tools are focused on Corporates and are not fit for SME purpose. In order to address the need to assess and improve SME sustainability performance, the SME ESG Assessment tool has been developed by UN Global Compact Network Malaysia & Brunei in collaboration with the Nottingham University Business School, University of Nottingham Malaysia, to assess SMEs sustainability performance. It considers the most relevant indicators that are applicable to the specific business environment of an SME.

Once the SME ESG assessment has been completed, the results page would identify the gaps and indicators that will require improvement. It also enables corporate buyers to identify capacity building opportunities for their suppliers and to construct a more resilient supply chain.



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*Process Flow of ACCESS: SME ESG Assessment and Action Map.*

## ACCESS SME ESG Assessment Structure

The ACCESS SME ESG Assessment includes 30 ESG indicators. Each ESG indicator includes 5 questions in order to understand to what extent the SME is enabling components to contribute to that indicator's performance.

The questions are structured as follows:

1. Identifying question:

This question serves to identify if the organization has addressed any issues, or has taken any actions related to the ESG indicator. If the answer is negative, that means that none of the subsequent questions will be relevant.

If the answer is positive, that means that the subsequent questions will be relevant in order to assess the level of engagement or contribution.

2. Processes and policies:

This question assesses whether the ESG indicators are embedded and integrated in an organization's business processes, systems and key decision-making processes.

3. Stakeholder engagement:

This question assesses if an organization is drawing sustainability insights from stakeholder engagements, industry observations and best practices, as well as to influence relevant actions to be taken.

4. Resources, technology and innovation:

This question assesses if the SME is able to invest, identify and leverage technology and innovation that can scale impact of sustainability initiatives, accelerate implementation of sustainable practices and provide cost effective solutions.

5. Managing data to meet quality standards:

This question assesses the ability to ensure the availability of accurate, reliable and decision-useful information that demonstrates the sustainability impacts and can be used to meet the requirements of relevant sustainability standards.

## ACCESS SME ESG framework

The initial selection of the sustainability indicators was performed by identifying the most cited and relevant existing sustainability measurement frameworks or indicator lists which are primarily applicable to SMEs in Asia across various industries<sup>1</sup>. In addition, global sustainability frameworks such as GRI and SASB was also compiled to shed light on the variety of sustainability aspects.

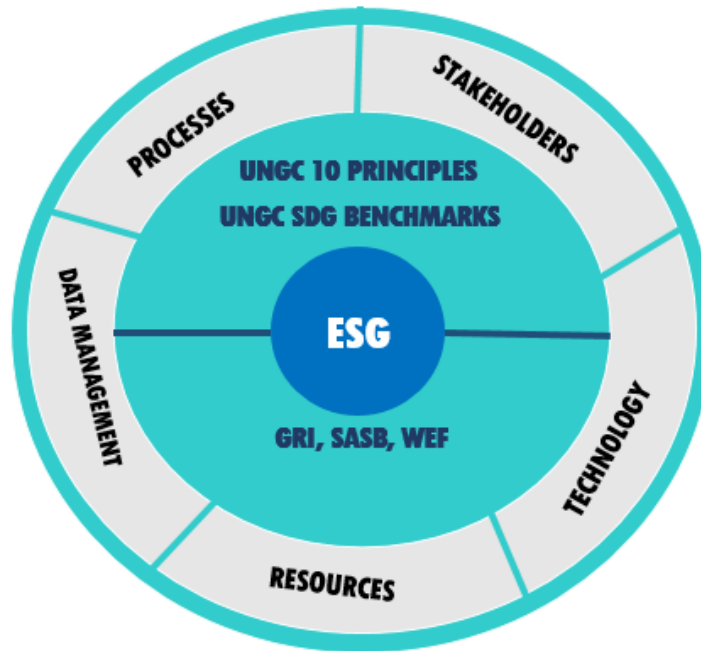
Through a series of focus group discussions and interviews with sustainability experts, government officials, and SMEs the most relevant indicators had been selected, combined, and categorized into different dimensions (e.g., environmental, social, governance) and sub-categories (e.g., operations, stakeholders, processes). It was also

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<sup>1</sup> Chang & Cheng (2019); Chen, Thiede, Schudeleit and Herrmann (2014); Fritz, Schögl & Baumgartner (2017); Labuschagne, Brent & van Erck (2005); Mani, Jabbour & Mani (2020); Prabawani (2013); Rahdari & Rostamy (2015); Singh, Olugu, Musa & Mahat (2018); and Tan, Yeo, Ng, Tjandra & Song (2015).

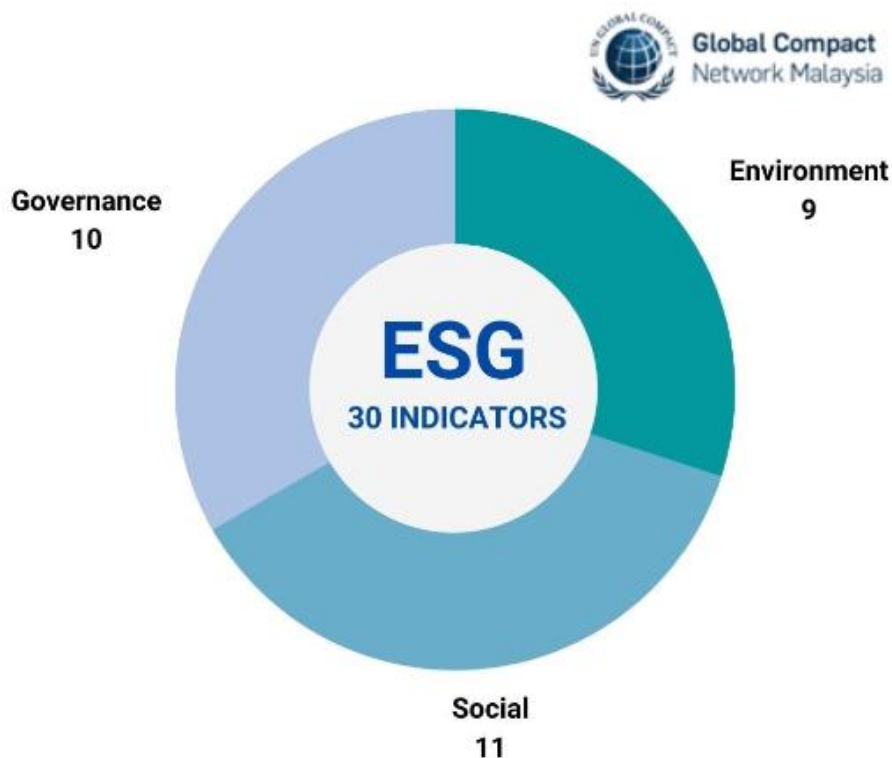
ensured that the indicators are aligned with the SDG Ambition Benchmarks and The Ten Principles of the UN Global Compact.

## SME ESG FRAMEWORK



*The ESG indicators are aligned with the UNGC Ten Principles, UNGC SDG Benchmarks and international sustainability frameworks. Indicators is assessed according to components of sustainability strategy and include Processes, Stakeholders, Technology, Resources and Data Management.*

# ACCESS SME ESG indicators



## 1. Environment

The Environment criteria evaluate how organizations operate and perform in regards to the conservation and protection of the environment as a business practice to minimize detrimental impacts on the overall ecosystem. This includes a set of key indicators that help identify an organization's environmental management and performance.

SMEs in the services sector impact Environmental indicators generally through their office supplies and furniture, logistics, and building management.

### 1.1 Plastic footprint

Measures and strategies to monitor the impact of business activities on its plastic usage and disposal in order to minimize plastic waste and the damages caused to the environment.

### 1.2 Materials Management

Business practices that monitor and regulate the source of materials and products used to ensure supply-chain management, planning and procurement have minimal negative impacts on the environment.

### 1.3 Waste Management



Business practices that monitor and regulate the collection, transportation, treatment and disposal of solid waste (e.g. plastics, used electronics, food) to minimize negative impacts on the environment.

#### 1.4 Water Consumption

Monitoring, measuring and assessing water consumption within the business operations to ensure sustainable and efficient usage of water.

#### 1.5 Environmental Management

Business management processes and practices aimed towards the protection and conservation of the environment by reducing negative and harmful impacts on the ecology.

#### 1.6 Ecosystems Approach

A framework of business management strategies that are aimed towards the conservation of land, water and living resources to maintain a balanced ecosystem that is sustainable.

#### 1.7 Energy Management

Business practices of monitoring and conserving energy consumption and distribution within business operations in order to optimize the use of energy that meets environmental standards.

#### 1.8 Carbon Footprint (Greenhouse Gas Emissions)

Measures and strategies to monitor the impact of business activities on its emission of carbon and harmful air pollutants released in the environment.

## 2. Social

The Social criteria evaluate an organization's business associations and social relationships in all aspects of business operations including stakeholders, suppliers, employees and local community to ensure a code of conduct that is ethical and socially responsible according to international and/or national guidelines. This includes a set of key indicators that help identify a company's social values and performance.

#### 2.1 Healthy and Safe Working Conditions

Management systems and practices within an organization that emphasizes the health, safety and welfare of workers by ensuring safe working environments and conditions.

#### 2.2 No Forced Labor

Enforcing policies and regulations in an organization to prevent the employment of labor that is against an individual's will through means of forced coercion on vulnerable individuals.

#### 2.3 No Child Labor

Enforcing policies and regulations in an organization to abolish the employment and exploitation of underage children.

## 2.4 Freedom of Association

Implementing practices that encourage the right of employees to freely form and join trade unions, worker associations and worker councils or committees for the promotion and defense of their occupational interests.

## 2.5 Inclusivity

Initiatives to actively advocate for a safe, just and fair treatment among all employees within the organization regardless of race, sex, and disability. Preventing discrimination also includes implementing measures that encourage and include employees' diverse backgrounds in the workplace.

## 2.6 Wages

Remuneration guidelines and structures set by an organization to ensure wages and salaries are determined according to international and/or national human rights standards.

## 2.7 Women Empowerment

Initiatives set by an organization to actively engage and include women equally within the organization as well as cultivating an environment that encourages women to have more autonomy in the workplace in regards to their opinions, thoughts and ideas.

## 2.8 Grievance Procedures/Mechanisms

Procedures and mechanisms set by an organization to address grievances (eg. workplace concerns, problems and complaints) experienced by employees within the organization and how to mediate as well as manage in an appropriate manner.

## 2.9 Supporting Local Communities

Concerted efforts and initiatives taken by an organization to engage, support and contribute positively to the development of the local community through philanthropy or volunteering.

# 3. Governance

The Governance criteria evaluate the responsibilities of an organization's management structures in consideration of its board members, stakeholders, investors and supply-chains. This includes a set of key indicators that help identify a company's social values and performance.

## 3.1 Sustainability Communication

Sustainability communication is a strategy to engage stakeholders and investors in order to disclose an organization's business approach, operations and progress on sustainability commitments in regards to ESG.

### 3.2 Sustainability Reporting

Sustainability reporting is the disclosure of a company's ESG data, operations, progress and performance within an independent sustainability report, an annual report or an integrated reporting.

### 3.3 Nature of Products/Services

An assessment and evaluation on the nature of products and/or services within the business operations to ensure that materials used are environmental friendly and socially appropriate.

### 3.4 Low-carbon/Green procurement

Ensuring goods and services are obtained and acquired from a source that meets environmental standards through low carbon footprint and minimal adverse environmental impacts.

### 3.5 Socially Responsible Procurement

Ensuring goods and services are obtained and acquired from an ethical and socially responsible source which abides by international and/or national human rights standards.

### 3.6 Anti-Corruption Policies

Guidelines to ensure that business practices are conducted with integrity and honesty with zero-tolerance for bribery and preventing gross business misconduct.

### 3.7 Sustainability Strategy and Risk Management

A business strategy that encompasses a systematic approach in managing sustainability initiatives. Risk management can help an organization assess the risk and opportunities of its material ESG metrics as well as to design and deploy appropriate responses to increase its ESG performance.

### 3.8 Climate Action

Efforts that demonstrate an organization's awareness on the urgency of climate changes (e.g. changing weather patterns, rising sea level, and more extreme weather events) through business actions and practices that seek to minimize adverse effects on the environment and changes in climate.

### 3.9 Leadership

Management-level initiatives and decision-making within the organization which takes into account the ESG factors and advocating sustainable business practices.

### 3.10 Organizational Culture

A collective set of values, expectations and ideas shared within an organization that are in line with the ESG initiatives. Mutual efforts among employees who share the same believe in corporate sustainability and incorporating practices and actions to achieve a positive impact on ESG.

### 3.11 Digital Tool Utilization

Digital strategies and initiatives on how an organization make use of and employ digital tools and processes that aid the efficiency and advancement of ESG practices within the organization.

### 3.12 Sustainable Financing

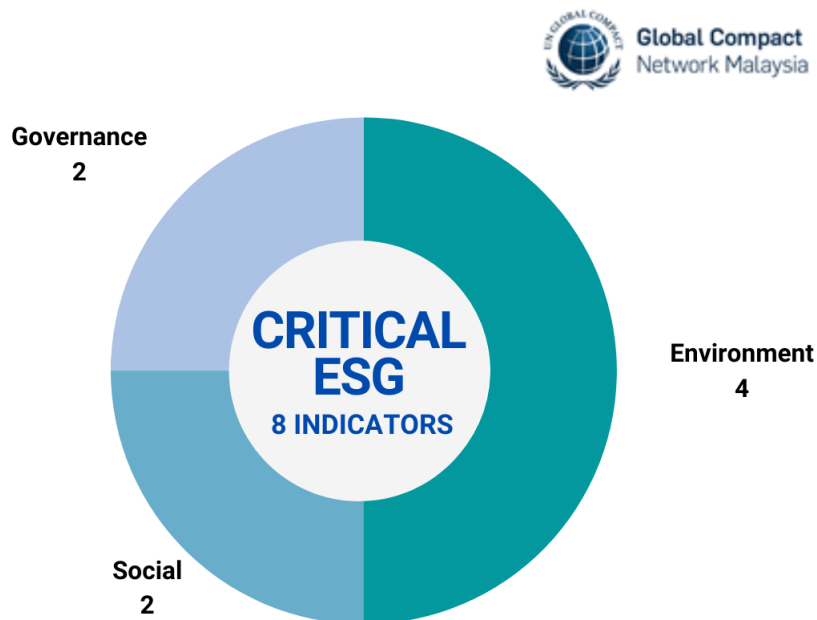
Financial processes and decisions that are in line with the ESG goals whereby organizations make financial decisions that support an environmentally sustainable economy through green bonds, green loans, sustainability-linked loans and others.

# Critical ESG indicators

ESG indicators are considered critical if they are included in the SDG Ambition Benchmark and are part of the core ESG reporting metrics as described in the WEF's white paper "Measuring Stakeholder Capitalism"<sup>2</sup>.

Based on these criteria, the critical ESG indicators are:

1. Water Consumption
2. Environmental Management
3. Ecosystem approach
4. Carbon Footprint (GHG Emissions)
5. Inclusivity
6. Wages
7. Anti-Corruption Policies
8. Climate Action



<sup>2</sup> Source:  
[https://www3.weforum.org/docs/WEF\\_IBC\\_Measuring\\_Stakeholder\\_Capitalism\\_Report\\_2020.pdf](https://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf)

# Methodology

After completing the SME ESG assessment, SMEs will be indexed into the following levels:

1. Beginner level: Score of 0 – 49 points
2. Intermediate level: Score of 50 – 79 points
3. Advanced level: Score of 80 – 100 points.

A total of 100 points can be scored when all the 150 questions related to the ESG indicators are answered positively.

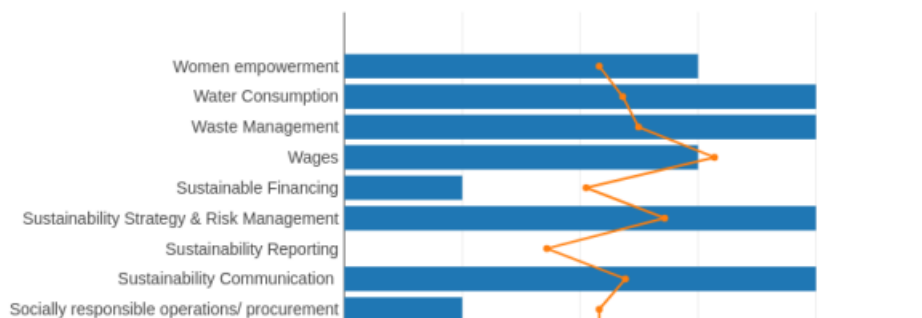
The points scoring is determined as follows: 50 points are allocated to the critical ESG indicators, and 50 points are spread over the remaining questions. This means that an SME who answers positively to all 5 questions of the 8 critical ESG indicators (40 questions) will score 50 points and will be indexed at the intermediate level.

**SDN. BHD.**

**Summary Date: 2021-10-28**

Score	Median Peer Score
19.7	49.6

Comparison to your peers



*Snippet of ACCESS SME ESG Index Results Page.*

# Closing the Gaps: Improving the SME ESG index

Once the SME ESG assessment has been completed, the results page would identify the gaps and indicators that will require improvement. It also enables corporate buyers to identify capacity building opportunities for their suppliers and to construct a more resilient supply chain.

In order to close these gaps, UNGCMYB has identified learning resources for the ESG indicators. These resources are compiled in a Learning Journey and Action Map that the SME can undertake in order to improve the SME ESG Assessment score and that would lead to overall better sustainability performance.

The SME ESG indicators will be mapped with relevant learning resources that create direct action items in order to improve scoring.


## Closing Remarks

ACCESS aims to close the gaps in the SME Sustainability field, which starts with the SME ESG assessment.

When Corporates have access to that data, it is possible to identify the shortcomings, where actions are required.

The ACCESS Learning Journey and Action Map will enable Corporates to identify capacity building opportunities for their suppliers and to construct a more resilient supply chain.

## LEARNING RESOURCES

**WATER CONSUMPTION**  
UNGC VIDEO: [THE VALUE OF WATER FOR BUSINESS](#)

**ENVIRONMENT MANAGEMENT**  
UN BROCHURE: [STRATEGY FOR PRIVATE SECTOR ENGAGEMENT](#)

**ECOSYSTEM APPROACH**  
UNEP PODCAST: [STATE OF PLANET](#)

**CARBON FOOTPRINT (GHG EMISSIONS)**  
UNGC REPORT: [A GREENER TOMORROW](#)

**INCLUSIVITY**  
UNGC: [4 STEPS FOR ACTION](#)

**WAGES**  
ILO: [WAGES](#)

**ANTI-CORRUPTION POLICIES**  
UNGC: [ELIMINATE CORRUPTION IN YOUR COMPANY WITH 6 STEPS](#)

**CLIMATE ACTION**  
UN COURSE: [FROM LEARNING TO ACTION](#)