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CEO Guide to
Sustainability
Centric
Decision Making
- Malaysia

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This Guide has been produced through the collaboration of **Capital Markets Malaysia** and **UN Global Compact Network Malaysia (GCMY)** via the **Centre of Excellence for Public Listed Companies**, and **Nottingham University Business School Malaysia**. The information in this guide has been produced based on insights, feedback and advice from CEOs of various Public Listed Companies. Some information in this guide is drawn from UN Global Compact (UNGC) and academic materials.

Getting into a Sustainability Mode

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Sustainability – A Foreword to this Guide

The World Economic Forum's global risks report in 2020 has identified environmental risks as the top 5 risks faced by businesses. The Covid-19 crisis has also provided a clear indicator of how sustainability-related issues can negatively impact businesses if not addressed correctly. Bain & Company's Covid-19 Gives Sustainability a Dress Rehearsal report highlights that the impact of Covid-19 is a harbinger of things to come, from the issues of climate change to social inequality that will destabilise global economies and businesses. This clearly demonstrate that sustainability has transitioned into a key business factor and if not taken seriously, will have serious ramifications on the survivability of business models.

Globally, countries in the European Union, China, Japan, and Australia are taking the lead to commit to the carbon neutral pledge and the modern slavery act, indicating a permanent change of supply chain operations. In Malaysia, Bank Negara Malaysia (BNM) is developing the Climate Change and Principle-based Taxonomy, which will act as a guide for Malaysian financial institutions to take climate change risks and associated sustainability metrics within their lending decisions. In addition, a recent survey by Pew Research Centre indicated that seven out of 10 Malaysians place more priority on environmental protection, even if it comes at the expense of economic growth and the creation of more job opportunities. This follows the trend that Malaysian consumers will vote for corporate sustainability with their purchasing power moving forward.

Being sustainable has proven to be good business, as a Morningstar 2020 research highlights, ESG funds are outperforming their non-sustainability centric peers during this pandemic. This is also evident in a UNGCMY research on stock performance of FTSE4Good constituents who outperform peers more than 3.5 times during the first MCO period, proving that sustainable business is a resilient entity poised to grow further.

The UNGC-Accenture CEO study in 2019 highlights the critical need for the tone to start from the top for businesses to fully integrate and leverage environmental, social and governance factors to promote innovation and sustained business growth.

This guide is produced by Dr. Avvari V Mohan, Associate Professor of Strategy & Innovation and Director of Research at the Nottingham University Business School (NUBS) and Mr. Faroze Nadar, Executive Director of Global Compact Network Malaysia, with the aim to provide some initial thoughts to CEOs and leaders of organisations for starting the sustainability journey within their organisations.

A Guide to Corporate Sustainability

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This guide, in addition to being a call to action, is also aimed at providing some pointers of how to start and take action.

Sustainability in the business world has had a plethora of terms and concepts - from the Triple Bottom Line, to Stewardship, then Shared Values and Circular Models and in the western world, discussions around 'new Capitalism' coming from the academic and practice literature. There is also the ESG and Impact Finance parlance from the finance sectors, the stock exchanges of different countries have also been drivers of sustainability with reporting / disclosure requirements, leading to reporting standards like Global Reporting Initiative etc. adding to these narratives.

In 2016, with the launch and promotion of the UN Sustainable Development Goals (UNSDGs), sustainability agendas have received a fresh impetus by government and businesses. With the 17 goals and 169 targets to work towards, there have been some good outcomes; however, businesses still seem to be unsure on how to start their sustainability journey. Given this, it was felt necessary to see what CEOs of Public Listed companies in Malaysia think about sustainability. This guide hopes to provide some initial thoughts to leaders of organisations, business or otherwise, for starting their sustainability journey.

The guide starts with an outline of the 5 qualities for SDG Leadership from the UN Global Compact. It is followed by the gleanings from the CEO roundtable and individual interviews on what were the sustainability issues faced by these Malaysian leaders, some challenges to keep in mind, and the approaches to organize sustainability. The guide concludes with some relevant resource links to address these aspects.



THE TEN PRINCIPLES

of the United Nations Global Compact

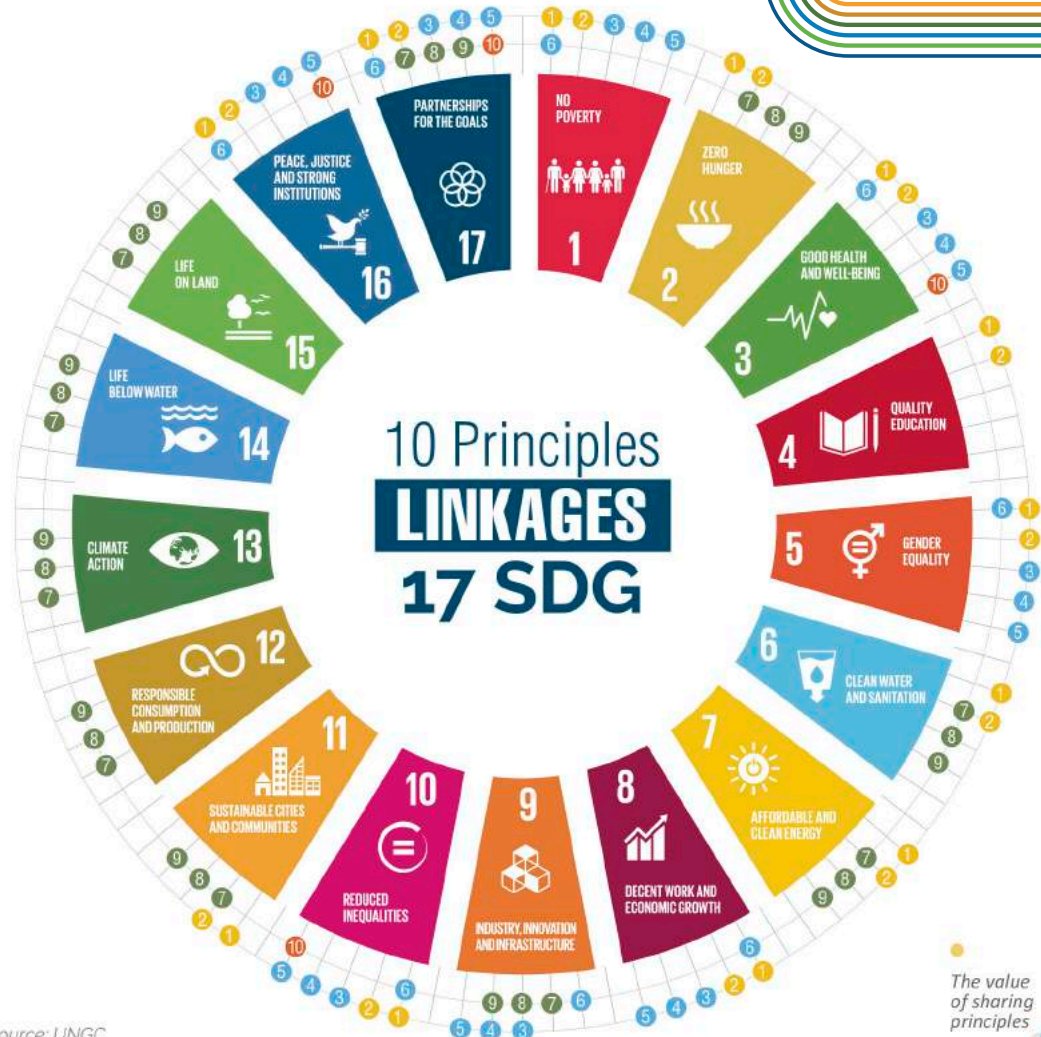
HUMAN RIGHTS

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

The value of sharing principles

UNGC SDG BLUEPRINT

5 Qualities for Sustainable Development Goals Leadership

1 Intentional

A leading company's action in support of the SDGs are an integral, deliberate part of its strategy. Support for the SDGs is incorporated into the long-term business goals of the company. It is an integral element by which it strives for value creation, manages its workforce, supply chain and other inputs, and addresses risks. This must be driven from the highest levels of the company and involve a strategic vision to open up new ways to contribute to the SDGs.

2 Ambitious

A leading company's level of ambition greatly exceeds prevailing levels of ambition, is aligned with global targets where relevant, and inspires action by others. Leading action represents a step forward in contributing to the SDGs within an industry and across geographies. Finally, a leading company explicitly targets long-term progress while also ensuring shorter-term contributions to the SDGs.

3 Consistent

A leading company embeds support for the SDGs across organizational functions, making its actions and communication consistent. The focus on the SDGs is recognised across the business, including by all senior leaders. Top-level ethical behaviour and commitment are embedded throughout the organization and underpin the performance required to advance the SDGs.

4 Collaborative

A leading company's action on the SDGs includes proactive collaboration with other businesses, government, academia, investors, civil society, and other stakeholders. Collaboration complements the leading company's own capabilities so as to achieve the best possible outcomes for the SDGs.

5 Accountable

A leading company understands and acts upon its responsibility to people and planet by holding itself fully accountable for the action it takes and the impact it has. Accountable leadership means being transparent and engaging stakeholders proactively on challenges and progress towards the SDGs. This fosters trust from government, investors, employees, customers, and communities.

The Insights

The following insights are derived from the collective inputs of CEOs who are leading the charge in integrating sustainability within their business operations.

1

What are the starting thoughts or points of Sustainability for the organisation

There were different starting points or drivers for Sustainability for their organisations - a common thread discussed by the CEOs is to ask -

In addition to financial performance and economic impact, all CEOs commented to focus simultaneously on

Social Issues

- Focus on Inclusivity and Diversity in the workforce
- This is strongly emphasised for the Malaysian Companies for addressing societal needs and also for going global in their growth agenda

What is the role played by the organisation in the society that they operate in

Diversity

- » as different people can help in coming up with new ideas and help in innovation
- » to help in being able to work with a global workforce

Developing training modules on sustainability

(eg. climate management) for the education of employees and younger generation

What should be the thinking for the organisation to be around for another 100 years

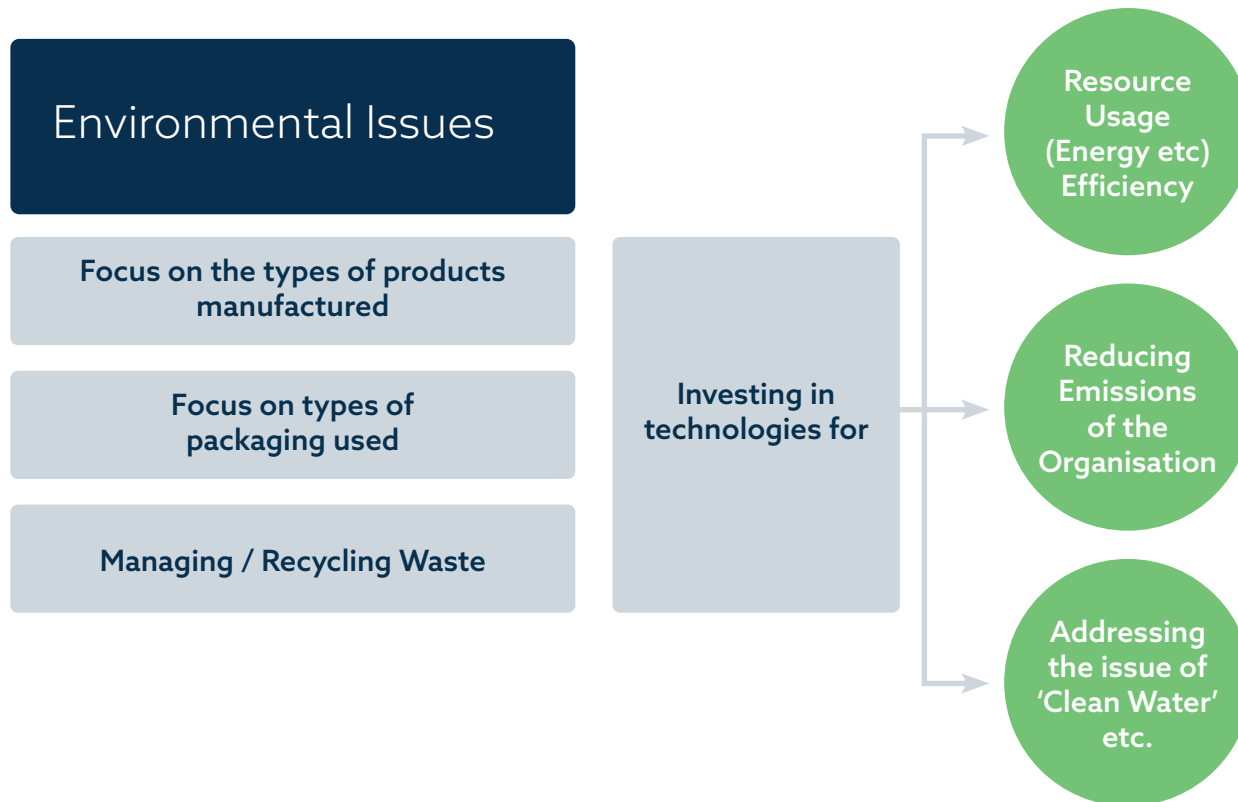
Inclusivity

- » brings in more Malaysians into the workforce
 - Differently abled, different gender etc.
 - Reduces poverty levels among Malaysians
- » helps reduce dependency on foreign workers
- » humanising the Workplace
 - as a means of supporting Human Rights - one of the UN SDGs to offer

There are other **Social issues** that can be pursued based on the **needs of the communities that the organisations operate in.**

“ Environmental issues are the ‘Hardware’ but the focus needs to be on Social aspects - ‘Software’ and this is challenging. ”

“ Market is a powerful driver of Sustainability - Educating the consumer is critical so that there is a demand for companies to be ‘responsible/ sustainable’ in the way they make and deliver products /services. ”



2

How does one fit 'sustainability' into the Business Strategy?



First and foremost, leaders must take a **long-term approach** to incorporate sustainability within their strategy

“ Sustainability should be part of the Organisation's Growth Narrative ”



Getting on indexes like FTSE4 Good index etc

- serves as an impetus for all employees to showcase sustainability efforts across the organisation
- helps attract responsible investors



Base the **current practices** by building on previous efforts / existing of basic fundamentals and **work them towards relevant certification**

- Eg. One of the CEOs mentioned his organisation had established excellent safety, health and environmental standards - the company built on this aspect to develop the sustainability agenda
- Eg. Prior experience in building and owning power assets that uses coal/gas as a fuel supply source and because of the roadmap to sustainability, switched to using renewable energy (2 years ago)



Map Sustainability issues into risk profiling to ensure it is integrated into business strategy and operations



Sustainability view - developing business sustenance (profitability)



By shifting into products that are 'sustainable' and also changing the raw materials

- Eg. Moving to use bio-based chemicals and recyclables for their products

3

What Challenges should CEOs be ready to face in implementing Sustainability

Challenges are in two categories (i) Internal and (ii) External to the organisation

Internal Challenges

The first one to the challenge of **managing the triple bottom line** - managing financial or economic performance of the company while simultaneously contributing to the social and environmental impacts

Getting a buy-in from employees at bottom level

- » Best practice to engage/educate factory workers: Eg. One of the organisations set up facilities for recycling waste and income proceeds are channeled to its staff club and to be spent on annual dinner

Challenges on data related supply chain traceability

- » Despite getting supplier declarations as proof, they cannot categorically determine trustworthiness of declaration.
- » Upcoming strategy is to focus on level of assurance of data - to be cross checked

External Challenges

There is a still a **lack of investor's support** on the push towards sustainability -

- » From investors' perspective, they were interested in sustainable reporting, but investment decisions are still based on reports - they were more focused on the "Governance" aspect as it is perceived to have high returns

Customers are generally not supporting/ pushing for sustainability - reason could be not interested/could not afford

Government are not taking the "stick" approach to taxing - example of the 'sin tax' or 'tax on sugar' (health reasons) etc.

“ *Investment community will invest - if there is demand from market/consumer for sustainable products/services - therefore educating market critical for driving demand for sustainable products/services.* ”

4

Organising for Sustainability and Competencies Required

There are two levels of structural support that CEOs talked about :

<p>1.</p> <p>At the Board Level</p>	<p>» Board should take initiative to drive sustainability (top-down approach) by setting up committees</p> <ul style="list-style-type: none"> • Set up Sustainability Working & Steering committee or even an Ethics Committee, which includes board members <ul style="list-style-type: none"> » <i>Board can also look into the larger operational issues such as the type of energy used etc</i> • There should be selection criteria for Independent directors – must have sustainability experience • Would help if board members and senior management went through sustainability modules.
<p>2.</p> <p>At the Organisation / Managerial and Operational Level</p>	<p>» Have a sustainability director that reports directly to CEO</p> <p>» Set up a sustainability working committee</p> <ul style="list-style-type: none"> • Coordinated by a Person in Charge (PIC) at a managerial level <ul style="list-style-type: none"> » <i>place less emphasis on whether their background is in sustainability. The person needs to be a generalist and someone who came up from the ranks (so has organisation memory)</i> » <i>should be connected' holistic thinker, from holistic background, must be able to see things from a wider approach</i> • should be able to work with external parties – business associates, suppliers and other stakeholders • And be responsive to changes

“ Board drives sustainability but it is important to understand stakeholders' views also ”

“ Sustainability steering committee should be with board members along with members from management together ”

2.

At the Organisation / Managerial and Operational Level

(cont'd)

- » Make sure everyone in the company is involved in environmental sustainability
 - With small scale but practical projects (eg. monitoring plastic, paper, water usage)
 - This can help in developing awareness and a culture of sustainability
- » PIC can be at the managerial level
 - – but still, it is good to have a sustainability working committee at the board level with responsibility shared across all members

3.

Other Criteria for Sustainability Committee or PICs

- » Sustainability board committee has to be managed by a C-suite member
- » For large companies with multiple locations
 - Each site/location must have its own sustainability representative
- » Organisations that have a large environmental footprint – as issues mainly arises from manufacturing/supply chain side, the C-suite member in charge of sustainability is also the chief manufacturing officer

5

Advice on how Sustainability can be accelerated in Malaysia – Programmes and Policy



8 Steps to Accelerate your Sustainability Ambition



1

Establish a Sustainability Governance Structure

As a best practice, this should happen at Board oversight for leading sustainable organizations. Alternatively, this can be done via the C-Suite level committee. According to a recent [NASDAQ report](#), investors are increasingly focusing on the role that corporate boards play in overseeing material sustainability issues as a part of their fiduciary responsibility. Between 2010 and 2014, over 250 shareholder resolutions were filed calling for explicit board oversight of sustainability issues. During 2016 this increased to 370, making sustainability the “fastest growing cause for shareholders.” A BursaSustain [resource](#) highlights the role and responsibilities of a C-Level committee as a core part of good governance in any company with a role to integrate long-term thinking into day-to-day business decisions.

2

Treat Sustainability as any Business Transformation Process

Demand for sustainability to be part of the business strategy, and projected outputs are stress tested to ensure positive impact on the organization. The key is to focus on value-based output versus monetary-based calculations. [UNGC's SDG Benchmark](#) provides a good starting point with the aim of transition towards a purpose-based organization. A [report](#) by EY demonstrates that being purpose-driven is a competitive advantage and that 89 per cent of executives believe an organization with a shared purpose will have greater employee satisfaction and 85 per cent say they are more likely to recommend a company with a strong purpose to others.

3

Appoint a Sustainability Champion

Often, a good practice is to appoint a C-level executive to lead the sustainability agenda. Alternatively, companies may place the sustainability function under a critical business unit to ensure the natural assimilation of strategy and performance. The expected roles, strategies and processes in place related to sustainability are rapidly evolving and it is becoming more important for dedicated professionals to lead on how to integrate these concepts further in their organizations in ways that directly contribute to business value. A WBCSD [paper](#) explains the key role of Chief Sustainability Officers.

4

Create a Culture of Sustainability

Corporate Values must be the levers to integrate sustainability action and behaviours that can be further compounded by linking it with organizational KPIs and Performance Management systems. An [article](#) by the Harvard Business Review stresses that In the context of an organization, corporate sustainability needs to be embedded into the DNA that determines how a company operates at the cellular level. It is the principle that guides a company's sustainability behaviour, which can then be quantified with ESG metrics. As culture is driven by leaders, it is imperative that a top-down sustainability approach can shift the way a business profits and wields its influence as demonstrated in the thoughts of [Paul Polman](#), the former CEO of Unilever.

5

Focus on Making your Products and Services more Sustainable

Often, organizations are overwhelmed on a starting point to begin their sustainability journey. A Pareto analysis will help decide which actions will have the most sustainable impact. A good start is by focusing on your product or service as that will collectively push your internal thinking, production processes and supply chain to meet sustainability standards. Many global organizations go down this route such as L'Oreal, measuring [beyond price and quality](#) parameters to include product ecological and social impact baselines.

6

Leverage Sustainability Data for performance

Often, sustainability (or ESG) data is a gold mine of non P&L indicators that can be used to continuously innovate and enhance business resilience and growth. When Sarawak Energy Berhad secured its first-ever Malaysian Utility sector [Sustainability Linked Loan](#) valued at RM100million, the interlinked Sustainability Performance Target used was the reduction of the CO2 per kWh of their transmission grids. Their ESG data enabled them to access cheaper financing and at the same time drives process innovation that will result in greater efficiency over time. Various reports have also analysed that [ESG funds have outperformed](#) amid the Covid-19 crisis highlighting the resilience of business that track and measure their ESG related data and performance.

7

Communicate your Sustainability Progress

Leverage your sustainability credentials as a key business branding and value differentiator to consumers, buyers and investors. An ESG outlook report by HSBC outlines that the [new consumer generation](#) clearly cares about ESG factors in choosing products and brands. This is also supported by a Pew Research done on Malaysian consumers that found seven in 10 Malaysians [polled](#) think protecting the environment is more important than creating jobs. Being sustainable will soon be a licence to operate.

8

Celebrate your Success

Regardless of the size of your sustainability accomplishments, remember to celebrate your wins, as you are contributing to a better world. However, like any business target, strive to raise the bar at every opportunity.

8 Steps to Accelerate your Sustainability Ambition



Resource Links

- » **Blueprint for Leadership Qualities for SDGs / Sustainability** <https://blueprint.unglobalcompact.org/>
- » **Your Tools to Advance the SDGs** <https://www.unglobalcompact.org/sdgs/sdg-toolbox>
- » **The SDG Compass** <https://www.unglobalcompact.org/library/3101>
- » **Global Compact Malaysia** <https://ungcmalaysia.org/>
- » **Nottingham University Business School Malaysia** www.nottingham.edu.my/business
- » **Capital Markets Malaysia** <https://www.capitalmarketsmalaysia.com/>
- » **Sustainability Resource from Bursa Malaysia** <https://bursasustain.bursamalaysia.com/>



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