

Planning for your company's business sustainability journey











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CENTRE FOR CIVIL SOCIETY AND GOVERNANCE



Partnership for Sustainability
Leadership in Business
商界永續發展領袖計劃

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Foreword

A decade ago, sustainability was a relatively new idea to the business sector. Many considered they had already done their part through donation and volunteering. Nowadays, with better understanding of the associated risks to business, tightened regulatory requirements and increased stakeholders' awareness, businesses have gained better understanding of the idea. Their attention to sustainability management has also expanded from their own operations to value chains. More companies which are predominantly large in scale and listed are working on embedding it into their own strategies, operations and value chains. Small and medium enterprises (SMEs) which are essential business partners in their value chains are at a crossroads to understand sustainability and put it into practice for business growth. Nevertheless, SMEs may feel lost when approaching business sustainability with the limited knowledge and

talent they have. It is no secret that SMEs are particularly survival-conscious, and they are concerned about the amount of financial inputs to improve their sustainability management from the cost-effectiveness perspective. On the other hand, the existing resources available in the market tend to be sustainability issue-driven and large corporate-focused. SMEs which have little understanding of business sustainability may find the resources hard to follow and apply in their businesses. Indeed, all they need is SME-tailored roadmap and practical guidance suggesting that they are advancing their business sustainability by adopting them.

This is where we as academics step in, as our most impactful contribution would be to provide the know-how to support SMEs through their journey.

Together with the SME Sustainability Self-check Tool, the project team of Partnership for Sustainability Leadership in Business had developed this SME Sustainability Roadmap and Kick-Starter Impact Toolkit to bridge the knowledge gap and facilitate SMEs to integrate sustainability into their businesses on their own. Prepared with reference to internationally recognised environmental, social and governance (ESG) risk management framework, this Toolkit is the first-of-its-kind designed to provide a sustainability roadmap for SMEs in Hong Kong and beyond. The six enablers consist of practical guidance to help promote business sustainability in these companies step by step.

I encourage you to make use of this Toolkit to advance your company's sustainability performance.



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Understanding Sustainability

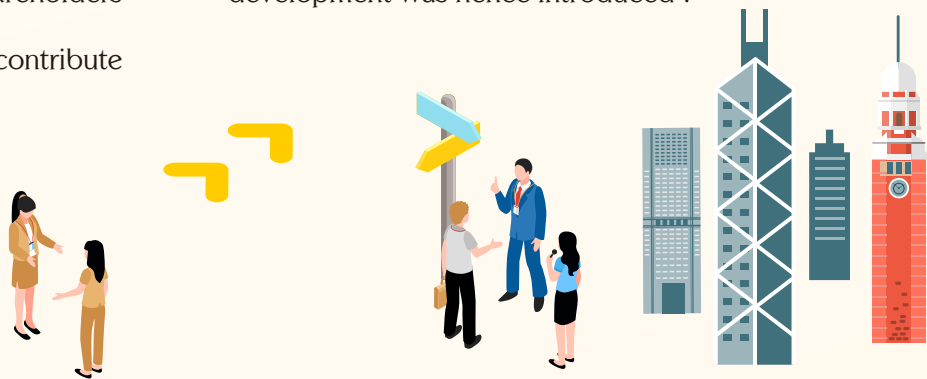
What Does it Have to Do
with SMEs?



From Corporate Social Responsibility to Business Sustainability

Prior to the emergence of sustainable development, social responsibility has been the subject that attempts to connect corporates and societies. In general terms, corporate social responsibility (CSR) addresses the expectations from stakeholders and society at large on companies' economic, legal, ethical and philanthropic responsibilities¹. From Confucianism entrepreneur² in the Chinese culture to the Western notion of "Social Responsibilities of the Businessman" in the 1950s³, CSR establishes the argument that companies should not purely focus on profit and serve the interest of their shareholders but adopt discretionary business practices and contribute corporate resources for community wellbeing⁴.

However, while donating money, building schools and hospitals and participating in volunteering work are doing good to the community, unrestrained development in business since the Industrial Revolution has taken a toll on the society and environment. Problems including poverty, over-population, inequality, climate change, resource depletion and environmental degradation made international organisations and academics questioned how to steer the world back on track where humanity could progress and survive sustainably. Sustainable development was hence introduced⁵:



Sustainable development is development



"that meets the needs of the present without compromising the ability of future generations to meet their own needs".

With the official introduction by The Brundtland Commission in 1987, sustainable development has been steadily mainstreamed and rewiring how the society approaches environmental and social issues. This trend started influencing the business sector over the past decade in particular due to increasing evidence that failure in managing sustainability risks harms the bottom line

and the market favours companies which proactively address sustainability concerns. Businesses regardless of industry and size can be impacted by the trend. The earlier the companies manage business sustainability, the better the business outcome and societal development.



- ¹ Carroll, A. B. and Shabana, K. M. (2010). The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice. *International Journal of Management Reviews: IJMR*, 12(1), 85-105.
- ² Tak, S. C. and King, Y. C. A. (2004). Righteousness and Profitableness: The Moral Choices of Contemporary Confucian Entrepreneurs. *Journal of Business Ethics*, 54(3), 245-260.
- ³ Bowen, H. R., Gond, J. P., and Bowen, P. G. (2013). *Social Responsibilities of the Businessman*. Iowa City: University of Iowa Press.
- ⁴ Kotler, P. and Lee, N. (2005). *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Hoboken, NJ: Wiley.
- ⁵ The World Commission on Environment and Development. *Our Common Future*. https://sustainabledevelopment.un.org/content/documents/5987_our-common-future.pdf

Basics of Business Sustainability

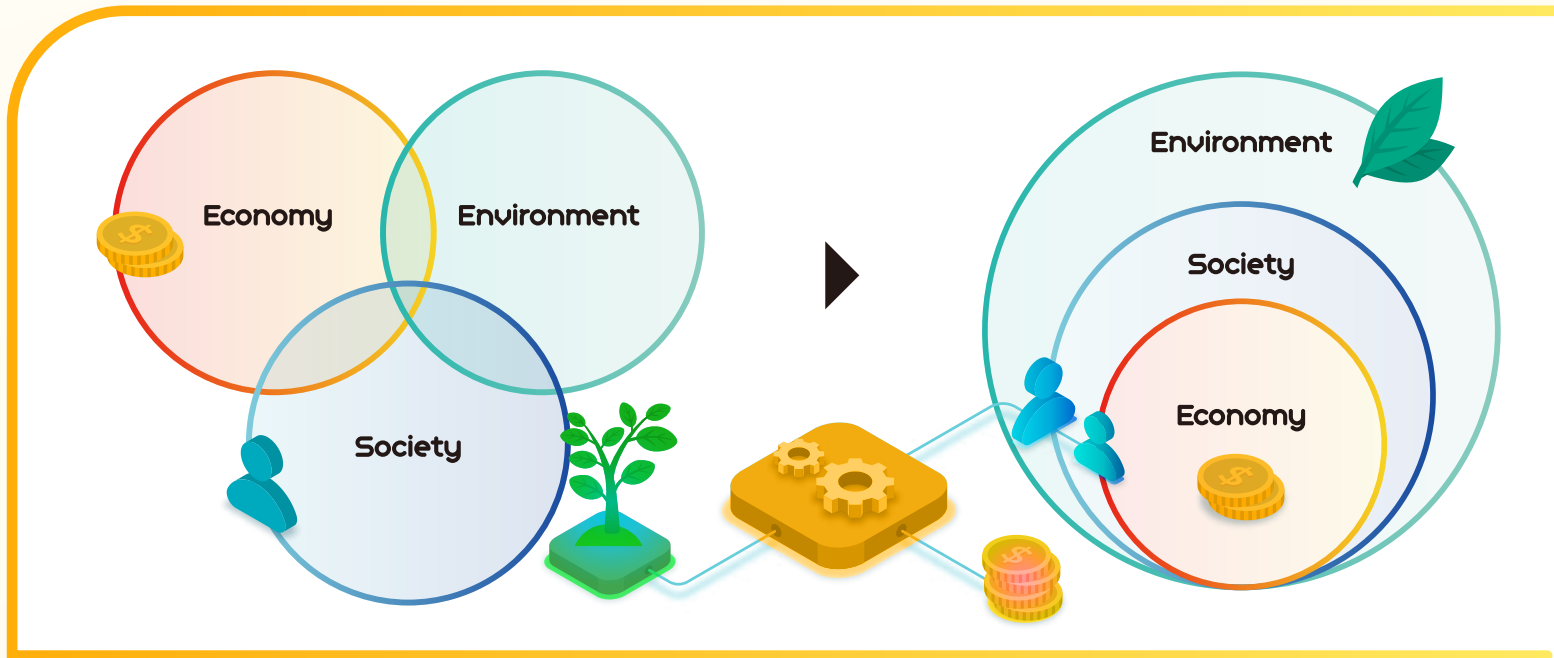
Business sustainability underlines the fact that business activities impact and, at the same time, are impacted by not only the economy but also the society and environment. Sustainable development is commonly known to comprise the three pillars – economy, society and environment. Graphically, they are represented by three circles of equal size, and sustainability is to strike a balance between them. Nevertheless, this thinking implies the three pillars are of same level of importance and can always allow trade-offs⁶ which does not reflect the reality.

Objectively, the presence of business essentially depends on the environment and society. Firstly, raw materials and daily essentials that business activities require to function, such as electricity, are all produced and extracted from the natural environment. Secondly, the economy needs human inputs, such as labour, productivity, innovation, technology, and more. Thirdly, the formation of society and its sustenance rely on the environment. Illustrated with the three-nested dependencies model, business or economy is built upon the society and, in turn, environment.



⁶ International Union for Conservation of Nature. The Future of Sustainability. <https://portals.iucn.org/library/sites/library/files/documents/Rep-2006-002.pdf>

Figure 1: **From three-pillar model to three-nested sustainability model**

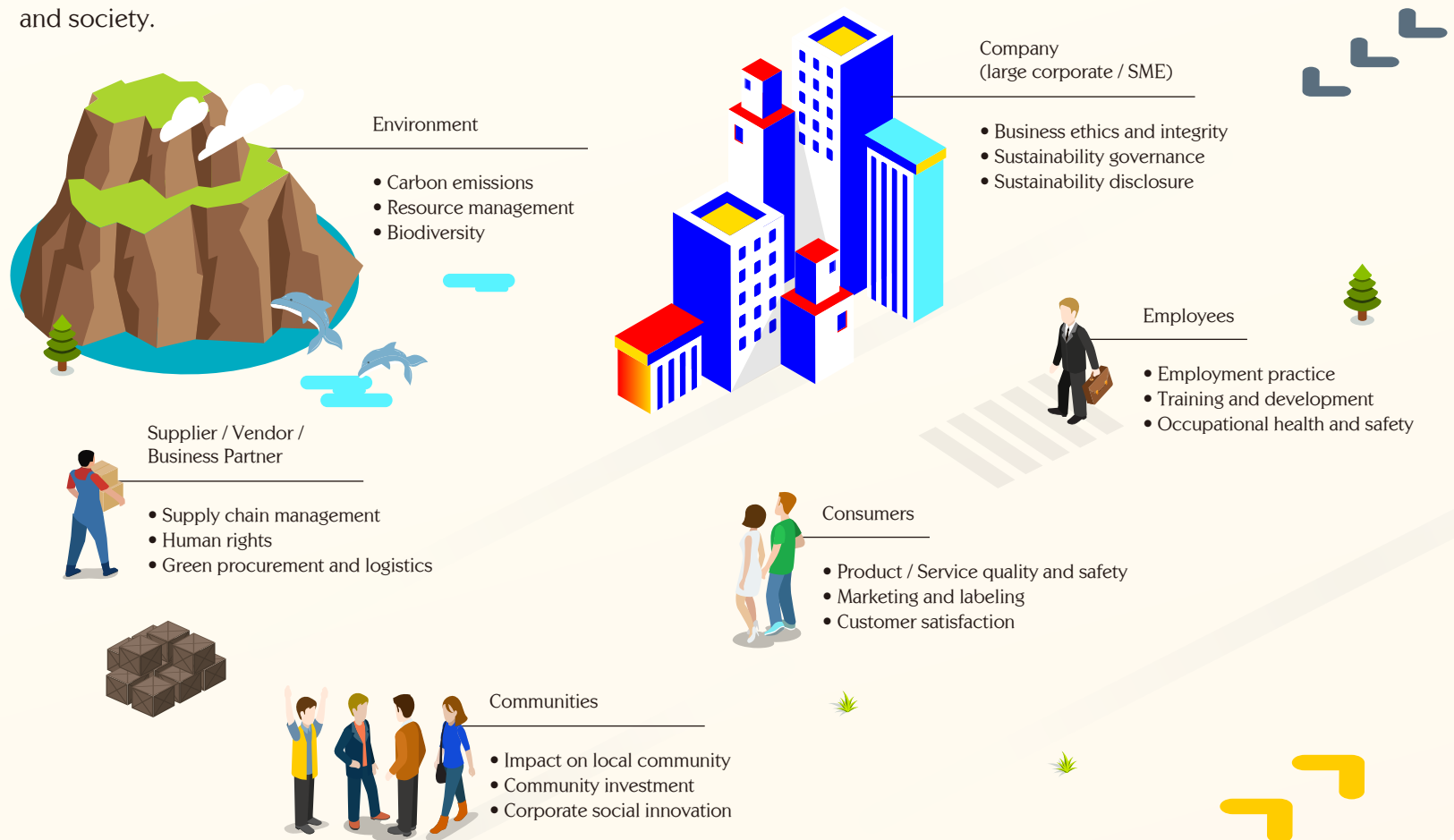


The three-nested sustainability model implies that business sustainability requires companies to conduct business activities in a manner that cause minimal negative impact on the environment and society and, if possible, bring positive contributions to them. Quality environment and social wellbeing are the prerequisites of a

flourishing economy that lasts. This is particularly evident with climate change and environmental degradation threatening the society and economy in terms of health and safety, resource availability and business operations.

In this sense, business sustainability goes beyond CSR of doing good for the society by donation and volunteering activities. Companies have to look into the sustainability issues arisen from the products, services, operations and value chains, and act for the interest of the environment and society.

Proactive management of the issues deemed material to the business maintains the license to operate and fosters the relationship with the key stakeholders.



Business Case of Sustainability Besides Compliance

Despite small in scale, SMEs' operations are affected by the environment and society, and the overall sustainability risk to the SME sector is not necessarily less than that from the large businesses. Executives nowadays consider sustainability strategy necessary to mitigate risks and stay competitive for their businesses. Many companies around the world have been adhering to the principles of sustainable development in their strategic management and operations which go beyond regulatory requirements.

From the application of green energy and practice of sustainable procurement to reduction of carbon footprint and adoption of ethical employment practices, these companies have progressively placed the sustainability agenda at the core of their business value. Business sustainability has presented companies numerous opportunities for sustainable growth:



Business Operation Resilience

Sustainability-orientated approach highlights issues of governance-related, environmental, social and other value chain-related risks which are to be addressed with strategy and business operations. It builds resilience across the business operations both today and going forward.



Company Reputation

With greater concerns on businesses from the public towards their sustainability impacts, being sustainable in business boosts corporate reputation. The brand helps company access to a wider talent pool, reinforce employee relationship, increase staff retention and become employer of choice.



Investment Decision

As attention about sustainability challenges have come front and centre for many institutional investors, responsible and sustainable investing have been on the rise. Investors are looking for companies that reflect linkages between financial performance, environmental management and social wellbeing when making investment decisions.



Customer Loyalty

Customers nowadays are more concerned about the supply chain management of a company's products or services. Being sustainable can reinforce the company's responsible reputation and respond to customer's demands, contributing to more business and referrals of new customers.



Business Innovation

Businesses are subject to the emerging sustainability issues such as climate change and ageing population. By considering them when formulating business strategies, companies can be benefited through innovating products, services or ways of conducting businesses. Integrating sustainability into business will help companies stay relevant and grow.

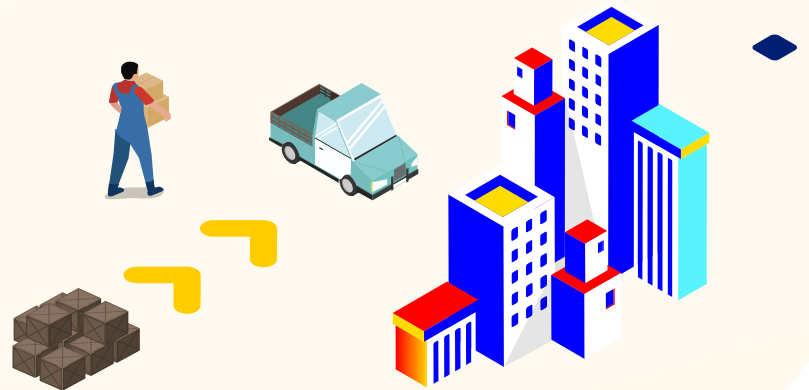
Strong sustainability performance conveys the potential for more sustainable revenue growth, greater appeal to employees and investors, higher customer retention and better access to new market opportunities.

Along this line of thinking, SMEs need to have a good grasp of sustainability issues to remain competitive in the market.

Implication of Sustainable Value Chain in Large Corporates to SMEs

On the other hand, driven by mandatory reporting requirements by stock exchanges, publicly listed companies are increasingly measuring and disclosing the management approach and performance on key sustainability issues annually. Such sustainability, or environmental, social and governance (ESG) reporting presents the big picture of a company in managing issues in not only its own operations but also the value chain. Taking the ESG Reporting Guide by The Stock Exchange of Hong Kong as an example, the listed companies need to report on how they have engaged their suppliers, how the climate, environmental and social risks have been identified in their supply chains, and how they are promoting environmentally preferable products and services when selecting suppliers⁷.

In fact, in response to the heightened stakeholder scrutiny, increasing number of large corporates and multinational corporations (MNCs) are going beyond the minimum requirements. In addition to going green and becoming more inclusive in their own operations, they are extending these commitments to the supply chains. These companies have been requiring their suppliers to complete sustainability questionnaires. Furthermore, the suppliers are asked to acknowledge and comply with the companies'



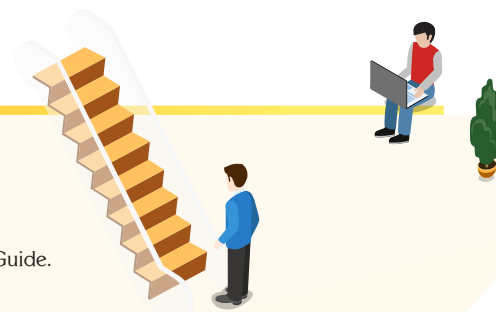
supplier code of conduct, which spells out their expectations on the suppliers' labour standards, health and safety practices and environmentally conscious behaviour. Some of these companies have also set science-based targets voluntarily, which address the carbon emissions from the operations and value chains, to contribute to low-carbon economy according to climate science⁸.

From this perspective, with sustainable value chain increasingly suggested by the large corporates, SMEs have to act on business sustainability now to sustain the partnership and create long-term values for the stakeholders.



So, as top management of your SME, is your company ready for seizing the opportunities of sustainable growth and meeting the heightened expectations from your clients and strategic business partners?

With this Toolkit and the six enablers, you will be able to better manage business sustainability and respond to the above questions.



⁷ The Stock Exchange of Hong Kong. Appendix 27 of the Listing Rules, Environmental, Social and Governance Reporting Guide. <https://en-rules.hkex.com.hk/rulebook/environmental-social-and-governance-reporting-guide-0>

⁸ Science Based Targets. <https://sciencebasedtargets.org/>

Introducing a Sustainability Roadmap for SMEs



As corporates are increasingly practicing business sustainability, more information about how to integrate sustainability into business has become available. Nevertheless, the information tends to focus on sophisticated systems and procedures (e.g. enterprise risk management, three lines of defense) which are applicable to large corporates but not SMEs. On the other hand, with limited knowhow, the lack of direction and shortage of ready-to-use resources are suggested to hinder SMEs in picking up business sustainability. While they may be eager to work on it, the knowledge gap challenges SMEs in advancing the agenda on their own.

This Kick-Starter Impact Toolkit is created with the aim to bridge the gap by recommending a sustainability roadmap tailored for SMEs in general. Developed by

sustainability professionals, the project team attempts to support SMEs' owners and senior management on the sustainability journey with the necessary knowledge and guidance. By adopting the Toolkit, companies will be able to put in place the structure and business process of sustainability management and improve transparency of sustainability disclosure. Whether the structure, business process and disclosure are of good quality in practice is beyond the scope and control of this Toolkit.



This Toolkit is unique in the market:

It is the first all-in-one booklet outlining the essentials about business sustainability in local and regional context

Being the first step-by-step guide for company's capacity building in sustainable value chain management, the Toolkit includes the first sustainability roadmap tailored for SMEs in Hong Kong and beyond as well as specific methodologies for sustainability practitioners' application

The methodologies are applicable to companies of all nature working on sustainable value chain management regardless of their paces and aspirations

The Toolkit is developed with reference to international enterprise risk management framework to ESG⁹, namely governance and culture, strategy and objective-setting, performance, review and revision as well as information, communication and reporting, focusing on practicality for SMEs

Following the steps would help companies align closer with the Companies Ordinance (Cap. 622), HKEX Main Board Listing Rules Appendix 27 or GEM Listing Rules Appendix 20, GRI Standards, sustainability indices and United Nations Sustainable Development Goals

The Toolkit forms part of the key component of and is recognised by companies signing the [Sustainable Value Chains Commitment](#)

⁹ COSO and WBCSD. Enterprise Risk Management – Apply enterprise risk management to environmental, social and governance-related risks. <https://www.coso.org/Documents/COSO-WBCSD-ESGERM-Guidance-Full.pdf>



As an introduction, Understanding Sustainability - What Does it Have to Do with SMEs? briefly presents the basic concept of business sustainability and the relevance to SMEs. It is followed by six enablers which provide practical information, templates and tasks to facilitate SMEs' sustainability management. They cover the topics

from purpose statement, sustainability governance and action plan to metrics, targets and disclosure. Some external references are also included for additional support. SMEs are advised to study this Toolkit in this order, especially for the enablers, to build the capacity strategically and systematically.

Figure 2: **Suggested sequence to study the Toolkit**



The project team understands that SMEs are practicing business sustainability at different paces with varying aspirations on what to achieve. To make the enablers more relatable, the tasks in each enabler can be taken at three levels of practice as indicated by the tags:

For **Leader**

For **High Performer**

For **Beginner**



Based on the company's current status, sustainability aspiration and available resources, SMEs can choose the suitable tasks to complete. To make an informed choice, you are suggested to complete the project's [SME Sustainability Self-check Tool](#) or refer to the [Business Sustainability Maturity Rubrics](#) on the next page to evaluate the current status on sustainable value chain management.

Table 1: **Business Sustainability Maturity Rubrics**

	Novice	Beginner	High Performer	Leader
Top Management’s Understanding of Business Sustainability	Top management has no understandings of business sustainability and implications to the company	Top management has simple understandings of business sustainability (e.g. triple bottom line, corporate social responsibilities) and implications to the company (e.g. crisis management, compliance)	Top management has good understandings of business sustainability (e.g. creating shared values, corporate social innovation) and implications to the company (e.g. operational efficiency, risk management)	Top management has detailed and impressive understandings of business sustainability (e.g. the United Nations Sustainable Development Goals, sustainable value chain, enterprise risk management to ESG risks) and implications to the company (e.g. market differentiation, business resilience)
Structure of Sustainability Governance	Dedicated director-or executive-led governance structure on sustainability is absent, and the company’s governance structure does not deal with sustainability	Dedicated director- or executive-led governance structure on sustainability is absent, but sustainability is dealt with in other governance structure in an ad hoc manner	Dedicated director- or executive-led governance structure on sustainability is present, and sustainability is dealt with on regular basis by the governance structure	Dedicated director- or executive-led governance structure on sustainability is present, and sustainability is dealt with on regular basis by the governance structure. Working groups are in place to further support the governance structure on sustainability governance
Assessment of Sustainability Issues	The company has no knowledge about sustainability issues	The company has good knowledge about sustainability issues and has identified those issues that are material for management through internal discussion and review	The company has good knowledge about sustainability issues and has identified those issues that are material for management through both internal and external stakeholder engagement	The company has good knowledge about sustainability issues and has identified those issues that are material for management through both internal and external stakeholder engagement with regular review
Extent of Sustainability Management in Value Chain	Sustainability is not at all managed in the business	Certain sustainability projects have been initiated to manage sustainability, but the scope is limited to certain business operations	Sustainability is systematically managed (e.g. policy, management structure) within the company’s own operations, but limited efforts have been paid to manage sustainability along the business’s value chain (e.g. issues arising from the product or service lifecycle)	Sustainability is systematically (e.g. policy, management structure) and constantly managed both within the company’s own operations and value chain
Collection and Analysis of Sustainability Information and Data	Sustainability information and data are not at all collected and analysed in the company	Project-specific sustainability information and data are collected and analysed in the company	Company-wide information and data concerning material sustainability issues identified are collected and analysed in the company	Besides information and data concerning material sustainability issues arising from the company’s own operations, information and data arising from the business’s value chain are collected and analysed
Allocation of Resources for Sustainability	The company does not allocate any resources to sustainability management	The company allocates resources to carry out certain projects for sustainability management	The company allocates resources to carry out programmes for sustainability management and provide sustainability training to employees	The company allocates resources to carry out programmes for sustainability management, provide sustainability training to employees, and educate suppliers, customers and other value chain partners

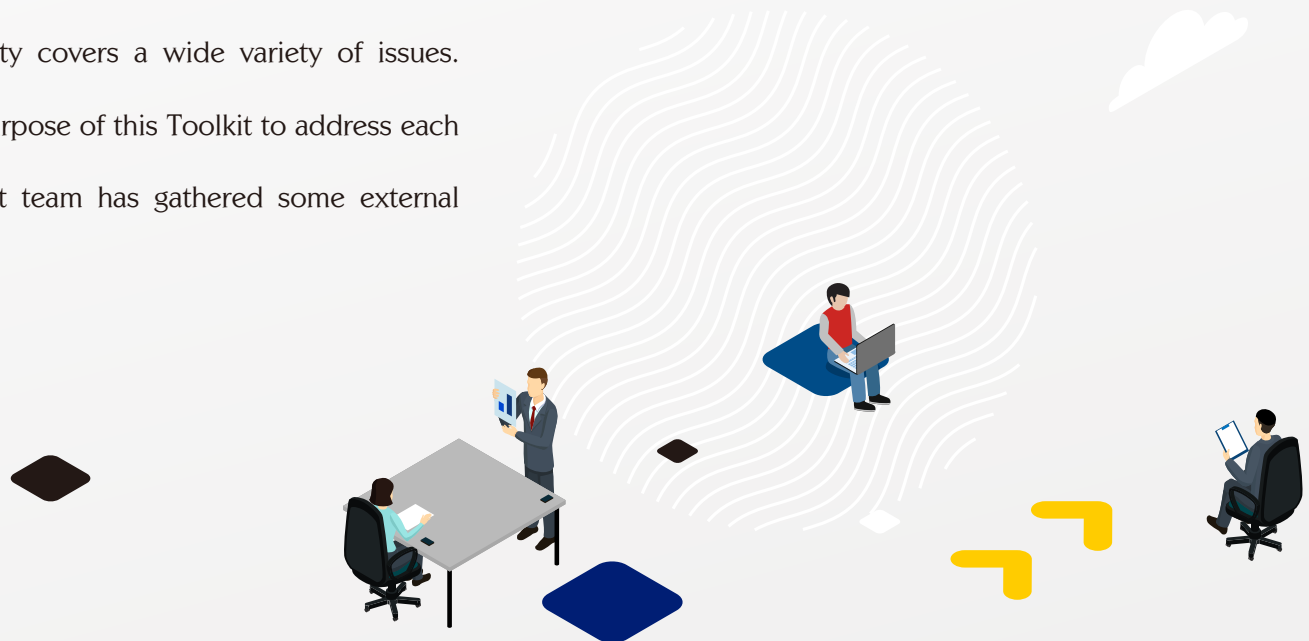
Additional Information

The project team hopes that this Kick-Starter Impact Toolkit is helpful to your company to at least give you some clues on how to advance business sustainability within your company and value chain. Businesses are increasingly seeing the value of sustainability. While it takes some hard work and resources to bring business sustainability to life, the benefits make these all worth.

Business sustainability covers a wide variety of issues. While it is not the purpose of this Toolkit to address each of them, the project team has gathered some external

resources for further reference. You can refer to [this document](#) to explore the sustainability issues that are of your SME's interest.

You are welcome to provide your feedback on this Toolkit and how the project team can further support SMEs' sustainability management at pslb@hku.hk.



About the Partnership for Sustainability Leadership in Business

The "Partnership for Sustainability Leadership in Business" (PSLB) is a four-year (2020-2023) action research programme initiated by the Centre for Civil Society and Governance, HKU, and supported by HSBC. The Project is led by Professor Wai-Fung Lam together with a group of sustainability experts. It is aimed at fostering sustainability leadership and collaboration in the business sector of Hong Kong through knowledge transfer, capacity building, and network development; in particular, the Project strives to foster strong partnerships between big corporations and SMES in pursuit of sustainability. The Project aspires to build a collaborative ecosystem which will enhance the capacity and role of SMES in Hong Kong and the Greater Bay Area in attaining sustainable development. More information about the Project can be found on <https://ccsg.hku.hk/pslb/>.

About the Centre for Civil Society and Governance

Established in December 2002, the Centre for Civil Society and Governance (the Centre) strives to enhance our knowledge of civil society and its contribution towards good governance, and to facilitate the attainment of a sustainable society through forging community-based, innovative solutions to inform policy deliberation and collective actions. The work of the Centre is organised around three Labs - the Policy for Sustainability Lab (PSL), the Social Entrepreneurship and Civic Action Lab (SECAL), and the Nonprofits and Philanthropy Lab (NPPL); each of them represents a research focus and an area of excellence of the Centre.

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