



R.G. Manabat & Co.



# Streamlining ESG Policies and Practices for SMEs through an ESG Platform for All

Digital Pilipinas

KPMG R.G. Manabat & Co.

Co-authored by:

ACUBELAW

DOST-Mapua Think and Tinker Laboratory

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R.G. Manabat & Co.



## Introduction

In the face of pressing realities such as climate change, environmental degradation, and pervasive social inequality, business owners and leaders must accept the fact that they have a responsibility to the communities they affect. Businesses need to keep track of their environmental impact, create a welcoming and productive work environment for their stakeholders, and work with regulatory bodies towards a better, more sustainable world.

In the context of the evolving role of business, the importance of environmental, social, and governance (ESG) factors has significantly increased. ESG is an umbrella term referring to the metrics used by investors to measure a corporate entity's environmental and sustainability impact. Some examples of ESG metrics include how a company complies with occupational health and safety protocols, manages its supply chains, and recycles its waste.

In recent years, observing ESG practices has become a fundamental principle for many big businesses globally. Not only has practicing ESG led to a stronger brand reputation, corporate goodwill, and a boost in financial performance, but failure to address ESG concerns hurts companies in the long term. For example, companies such as ExxonMobil faced backlash for their lack of action on climate change, leading to a decline in financial performance and insurmountable reputation damage.<sup>1</sup>

Although the expectation for compliance is set mostly on multinational and bigger corporations, small to medium-sized enterprises (SMEs) are also realizing the importance of ESG. Practicing ESG can give SMEs benefits such as improved risk management, access to new markets and funding opportunities, better employee engagement, and improved overall competitiveness.

Unfortunately, however, SMEs in developing economies such as the Philippines are often unaware of the benefits resulting from observing ESG principles and practices. An Asia-wide survey conducted in July 2022 shows that while 70% of consumers prefer to buy from companies with effective ESG strategies in place, only 29% of SMEs in the region actually have these institutionalized and observed.<sup>2</sup>

Thus, the challenge today is to make it easier for SMEs to adopt ESG for the long term.

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<sup>1</sup> Steffy, L. (2020, November 10). *ExxonMobil's Failure to Go Green Could Worsen Its Financial Future*. Texas Monthly. Retrieved January 27, 2023, from <https://www.texasmonthly.com/news-politics/exxon-mobil-failure-green-energy-financial-losses/>

<sup>2</sup> Talavera, C. (2022, December 16). *Sustainability now a consideration when shopping online – survey*. Philippine Star. Retrieved January 27, 2023, from <https://www.philstar.com/business/2022/12/16/2231056/sustainability-now-consideration-when-shopping-online-survey>



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## The importance of a unified approach to ESG

A unified approach to ESG allows companies to take a holistic view of their impact on society and the environment, rather than focusing on isolated issues since this approach allows companies to identify and address interconnected risks and opportunities, which can lead to more effective decision-making and long-term success.

The need for a standardized, unified ESG approach is especially relevant for SMEs because it saves them from having to deal with any possible inconsistencies and inefficiencies that may arise from piecemeal adoption. A unified approach to ESG can also help SMEs comply with regulations and laws related to environmental and social issues, as well as avoid potential legal liabilities.

Fortunately, there are several regulations in the Philippines that apply to all sectors including SMEs. For example, The Extended Producer Responsibility Act makes it so that the mandates for reducing plastic waste will be clearly defined and measurable, requiring producers to comply with reporting requirements, establish internal systems for tracking waste reduction, undergo third-party audits, and face penalties for non-compliance.<sup>3</sup>

Creating a unified approach to ESG implementation starts with creating effective ESG strategies.

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## Education is the key

Of course, the success of ESG and sustainability-focused initiatives spearheaded by either public or private sector actors depends on people's understanding of ESG and sustainability as a whole. That is why the lack of awareness surrounding key ESG and sustainability tenets is a pain point that needs to be solved as soon as possible.

A plausible solution is to create a consolidated platform showing successful ESG use cases, practices, and policies that SMEs can replicate sans the birthing pains, sunk costs, and inefficiencies. Through such a platform, SMEs may get over the hesitation because of the

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<sup>3</sup> Villacorte, B. N., & Courteille, E. N. (2022, April 3). *What the EPR Act of 2022 can mean for businesses*. BusinessWorld Online. Retrieved January 27, 2023, from <https://www.bworldonline.com/economy/2022/04/03/439839/what-the-epr-act-of-2022-can-mean-for-businesses/>



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scarcity of resources which may otherwise be channeled towards more traditional business methods.

For instance, SMEs would benefit from understanding the stories of several restaurants that prioritize hiring persons with disabilities (PWDs).<sup>4</sup> Getting familiar with these use cases will help SME business owners become aware of processes on how to hire PWDs and understand quicker the legalities behind these and how to create a truly inclusive workplace environment.

The platform can even point SMEs to organizations willing to put up resources to help them on their ESG journey. De La Salle University's Animo Labs incubator puts emphasis on innovation-driven entrepreneurship that positively impacts society and the country. Towards that end, Animo Labs has offered its support to sustainability-focused startups in the form of cash grants, training, and workshops.<sup>5</sup>

The platform may even include information on how to conduct an ESG assessment, how to implement sustainable supply chain management, and how to report on ESG performance. Additionally, the platform can help SMEs connect with experts and other organizations that can provide guidance and support in a wide range of ESG related endeavors and processes.

A go-to platform showing concrete examples of ESG successes can ensure SMEs are all on the same page about ESG. It will drive home the point that ESG is not just a matter of compliance or reputational risk, but also an opportunity for business growth and innovation.

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## ESG-conscious supply chains for SMEs

Focusing on infusing ESG principles and practices into operations arguably is not enough. SMEs will also do well to look at their supply chains: the majority of a company's climate impact, often as much as 80%, comes from the production within its supply chain, while emissions from its own operations account for only a smaller portion—around 20%.<sup>6</sup>

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<sup>4</sup> Sy, D. (2022, July 28). *7 Restaurants that Hire People with Disabilities*. Booky. Retrieved January 27, 2023, from <https://booky.ph/blog/disability-inclusive-restaurants/>

<sup>5</sup> Animo Labs. (2022, January 17). *Innovations in Sustainability: Call for Startups*. DLSU Animo Labs. Retrieved October 25, 2022, from <https://www.dlsuanimolabs.com/post/innovations-in-sustainability-call-for-startups>

<sup>6</sup> Spiller, P. (2021, June 14). *Making supply-chain decarbonization happen*. McKinsey. Retrieved January 27, 2023, from <https://www.mckinsey.com/capabilities/operations/our-insights/making-supply-chain-decarbonization-happen>



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Bigger companies such as Nestlé have adopted a “life cycle” approach to their supply chain, meaning it identifies the environmental impact of a product at every stage in its life cycle. For their coffee products, this means Nestlé assesses the carbon footprint of the cocoa farmers and even goes as far as providing training to ensure farming stays as green as possible.<sup>7</sup>

SMEs in the Philippines can learn from the example set by bigger corporations. It can start with creating a one-stop platform listing ESG-compliant suppliers across a wide range of industries. By simply choosing to work with ESG-compliant suppliers, an SME can rest assured that their supply chain leaves a good societal impact.

The difficulties that SMEs have in choosing ESG-compliant suppliers is a well-known problem even globally. According to the business sustainability rating platform EcoVadis, about 44% of businesses are deemed to have “insufficient” carbon management in their supply chains.<sup>8</sup> This figure came after analyzing 15,000 suppliers.

The creation and promotion of a platform listing ESG-compliant suppliers will give SMEs the ability to make informed decisions about who to work with. By empowering SMEs to make this decision on their own, ESG will mean so much more to them.

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## New regulations

To encourage easier ESG adoption for SMEs, it is important to incentivize Local Government Units (LGUs) or geographic area-bound pilot case studies among SMEs which are willing to become pioneers and champions for ESG principles and practices. These organizations, with the support of LGUs with the ripe policy environment, can serve as models for the implementation of ESG at the LGU level. One key aspect of this is to highlight the benefits of green procurement and purchasing for the pilot LGUs.

For the long term, it is important to consolidate and highlight incentives for entities with good ESG practices and pursue these with concerned National Government Agencies (NGAs). There are several initiatives that can be explored to achieve this. For example, stakeholders

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<sup>7</sup> Harvard.edu. (2017, November 15). *Nestle: Greening the Supply Chain - Technology and Operations Management*. HBS Digital Initiative. Retrieved January 27, 2023, from <https://d3.harvard.edu/platform-rctom/submission/nestle-greening-the-supply-chain/>

<sup>8</sup> Rowsell, J. (2022, August 22). *SMEs 'unequipped' to meet ESG supplier goals*. CIPS. Retrieved January 27, 2023, from <https://www.cips.org/supply-management/news/2022/august/smes-unequipped-to-meet-esg-supplier-goals/>



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may explore and discuss with the Board of Investments and the Department of Trade and Industry (DTI) the possibility of granting incentives such as tax holidays or reducing licensing

fees for ESG-compliant entities. Similarly, the Department of Labor and Employment may incorporate ESG practices in Guidebooks and Standards circulated among employers and award incentives for compliant employers via administrative issuances. Additionally, regulators such as the Securities and Exchange Commission, Cooperative Development Authority, DTI, and LGUs can solicit ESG compliance reports in statements and periodic submissions even for non-publicly listed entities.

In addition to government initiatives and programs, private entities and sectoral organizations can play a role in self-regulation via co-written codes of conduct, grant of awards and incentives from umbrella organizations such as the Employers Confederation of the Philippines, Philippine Chamber of Commerce and Industry, and other nationally recognized federations which can help influence and sustain self-regulation and peer accountability mechanisms. This unified approach and multi-industry/multi-sector acceptance and promotion of ESG principles and practices, akin to the whole-of-government approach, will not only provide a clear and consistent set of standards for SMEs to follow but also create a culture of sustainable practices within the business community.

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## Conclusion

The most pressing pain point facing ESG and sustainability today can be traced back to a lack of awareness or understanding of how accountability and responsibility for corporate good governance, environment, and social sustainability plays in different levels of society. While larger, publicly-listed corporations may be aware of what they need to do; unfortunately, the same cannot be said for many SMEs.

It is the responsibility of key industry leaders and regulatory bodies to lead the necessary education and awareness initiatives. They must do all that they can to urgently spur awareness and provoke action, even incrementally: whether it's through creating a platform listing ESG-compliant suppliers, pooling together educational resources on ESG, or engaging regulators.

Tackling the problem of education and awareness will hopefully prove to be a catalyst for further ESG/sustainability development —whether it is in the form of better, properly nuanced regulations, more strategic partnerships, improved operations, or increased funding. These efforts should result in a better, more inclusive, and more sustainable world for all.