

## Ways to promote sustainable practices among Malaysian SMEs from the viewpoints of experts



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### ABSTRACT

#### Article History

Received: 29 January 2024

Revised: 23 July 2024

Accepted: 16 August 2024

Published: 23 September 2024

#### Keywords

ESG

Expert's perspective

Malaysia

Qualitative study

Small and medium enterprises

Sustainability.

This study aims to investigate the ways to promote sustainable practice among Malaysian SMEs from the viewpoint of experts. Small and medium enterprises (SMEs) could play a pivotal role in helping to achieve the National Sustainable Goals due to their greater recognition within the Malaysian economy. Within this scope, this research provides insights into SMEs' sustainability practices by exploring the opinions, experiences, and perspectives of experts on the requirements that support such practices among SMEs in Malaysia. This study adopts a qualitative approach using focus group discussion (FGD). Expertise was drawn from SME Corporation, financial institutions, and academia on their perspectives of how the ecosystem might contribute to sustainable practices among SMEs. The findings show that awareness, reporting, platforms, monitoring, and recognitions, all play a significant role in improving sustainability practices among Malaysian SMEs. The insights presented are of important illumination to achieve long-term sustainability of Malaysian SMEs, particularly in practical aspect, by identifying the key elements necessary to adopt and integrate sustainability into their business operations. The practical implications of this study extend far beyond the theoretical framework, offering concrete strategies that Malaysian SMEs can implement to achieve sustainable growth. In addition, the findings of this study can guide policymakers in crafting targeted policies and support mechanisms that foster a conducive environment for SMEs to thrive sustainably, ultimately leading to a more resilient and competitive business landscape in Malaysia.

**Contribution/ Originality:** The originality of this research lies in its multi-faceted approach, drawing expertise from diverse stakeholders, including SME Corporation, financial institutions, and academia. The findings not only benefit SMEs directly but also serve as a valuable resource for policymakers looking to create a supportive environment for sustainable business practices.

## 1. INTRODUCTION

Sustainability is poised to become a major trend in many countries around the world as many sectors become more aware of the rate and extent of environmental damage caused by economic activity. It has become a crucial global force driving change and transformation, impacting nearly every facet of society and economic practices, from production and consumption to governance and staff culture, and from economic growth to the protection of vulnerable groups. In order to meet current needs without compromising future generations, the United Nations (UN) has established 17 Sustainable Development Goals (SDGs), most of which are aimed for achievement by 2030. Additionally, the United Nations Educational, Scientific, and Cultural Organization (UNESCO) has adopted a Declaration of Ethical Principles on Climate Change, particularly Article 5(a) - Sustainable Development, to guide decision-making and policy development in the fight against climate change. This declaration encourages sustainable practices in consumption, production, and waste management, emphasizing resource efficiency, climate resilience, and reduced greenhouse gas emissions. Furthermore, the Paris Agreement, endorsed by 196 parties, commits to shifting development pathways towards sustainability, with the ultimate goal of achieving net-zero emissions by 2050.

In Malaysia, sustainability is one of the pillars of Bursa Malaysia's Strategic Roadmap 2021-2023. Bursa, Malaysia, as part of this roadmap, has made it mandatory for all listed companies to have a sustainability statement disclosure report in their annual reports. In an effort to facilitate the disclosure of sustainability practices, a Sustainability Reporting Guide has been issued to assist public listed companies (PLCs) to prepare their sustainability statement in accordance with the listing requirements of Bursa Malaysia.

The launch of the FTSE4Good Bursa Malaysia Index in 2014 and the adoption of the SDGs in January 2016 have led to a noticeable increase in ESG disclosure. The FTSE4Good Index Series is a collection of socially responsible, or environmental, social, and governance (ESG) stock indexes administered by the Financial Times Stock Exchange (FTSE). The purpose of these indexes is to highlight companies that score highly in measures of corporate social responsibility (CSR). These initiatives aim to reduce information asymmetry, enhance transparency, and offer non-financial voluntary disclosures that support investor decision-making [1]. However, this movement is still considered in its early stages in Malaysia [2].

According to Bursa Malaysia's Chief Executive Officer (CEO), only 75 companies have met the criteria for the FTSE4Good Bursa Malaysia Index, which serves as the local stock exchange's benchmark for ESG compliance [3]. Additionally, He is suggested that the quality of sustainability reporting is closely linked to the effectiveness of a company's sustainability practices, with reporting quality expected to improve as these practices mature [4]. This implies that moving the needle on the sustainability agenda for the capital market requires significant momentum from all ecosystem actors.

Therefore, it is essential to expose the sustainability practices in the early stages of a company's establishment so that the company will be well prepared and able to sustain its operations in a challenging economic environment, especially when entering the capital market. Regardless of size and market capitalization, the Chairman of the Malaysian Institute of Corporate Governance (MICG) emphasized the need to extend good governance and ESG to all companies, including small and medium enterprises (SMEs), given the current challenging economic environment for all businesses [5].

SMEs have significant growth potential and play a crucial role in enhancing the economic and social well-being worldwide. In 2020, they contributed 38.2% to Malaysia's gross domestic product (GDP) and employed 48.0% of the workforce [6]. SMEs significantly contribute to the economy by creating jobs, distributing wealth, and alleviating poverty [7]. Despite their positive economic contribution, it has been proven that SMEs are in significant part to blame for waste production, pollution, and resource consumption [7]. Moreover, problem of human rights violation, environmental damage, and social norms is more intense in SMEs than large organizations [8]. As a result, SMEs have a profound impact, and it is important for SMEs to participate in the sustainability

development the impact of SMEs is therefore profound, and it is relevant for SMEs to take part in the sustainability development agenda as a prerequisite to achieving the SDGs.

However, SMEs often face challenges in integrating ESG practices into their operations due to a lack of resources, knowledge, guidance, and expertise [9]. Most previous studies have examined the barriers that SMEs face in implementing sustainability in their business activities in order to address these challenges [10-12]. Researchers have largely neglected studies on sustainability practice among SMEs. Therefore, this study delves into the opinions, experiences, and perspectives of experts regarding the requirements that support sustainability practices among SMEs in Malaysia. The FGD was conducted with experts from SME Corporation, financial institutions, and academia to explore how these stakeholders view the ecosystem's contribution to fostering sustainable practices within Malaysian SMEs.

This study is structured as follows: Section 2 delves into the research review that informs the study. Section 3 describes and illustrates the methodology applied in the study. Section 4 presents the findings of the thematic analysis, followed by discussions of the findings in Section 5. This study concludes, in Section 6, with a summary of key findings, implications, and limitations.

## 2. LITERATURE REVIEW

### 2.1. Review of Current Sustainability Initiatives in Malaysia

In line with sustainable development goals 2030, the Malaysian government has taken steps to introduce several policies and initiatives to encourage the sustainability practices among business entrepreneurs. For instance, Bursa Malaysia launched the Corporate Social Reporting Framework in 2007 as a guideline for publicly listed companies that wish to implement corporate sustainability reporting. In the guidelines, publicly listed companies in Malaysia must disclose the implementation of sustainability in the company's annual report, which includes four dimensions, namely society, environment, workplace, and market.

In October 2015, Bursa Malaysia launched a new corporate sustainability framework that contains amendments to existing public listing requirements and provides sustainability guidelines for publicly listed companies in Malaysia. The new corporate sustainability framework provides guidelines to improve companies' corporate sustainability reporting. In order to encourage best practice ESG disclosure and increase profile of companies with leading ESG practices, Bursa Malaysia and FTSE launched the FTSE4Good Bursa Malaysia Index in December 2016 and the FTSE4Good Bursa Malaysia Syariah Index (F4GBMS) in July 2021. The ESG scores for Malaysian publicly listed companies were also made available to promote and encourage the adoption of sustainability in the marketplace.

The policy and initiatives, however, place more emphasis on companies with corporate status or publicly listed companies, where publicly listed companies have to implement and disclose all sustainability activities according to established guidelines. In addition to emphasizing publicly listed companies, other registered companies such as enterprises, sole proprietorships, and cooperatives should not be neglected. This situation arises because the sheer number of these companies monopolizes the business landscape in Malaysia.

In order to increase the ability of SMEs to be more competitive, the government has expanded access to financing for entrepreneurs through significant increased funds allocations from Malaysian Ringgit (MYR) 9.1 billion in 2019 to MYR31.1 billion in 2021 [13]. The Central Bank of Malaysia has introduced two fund facilities under the 2022 budget, namely the Business Recapitalization Facility and the Low Carbon Transition Facility (LCTF), each amounting to MYR1 billion, to help SMEs strengthen their capital structure and support green financing [14].

In addition, various entrepreneurship development programs covering various aspects such as financing, research and development (R&D), training and capacity building, infrastructure, technology transfer, market access, social entrepreneurs, and internationalization have been implemented in Malaysia. The National Entrepreneurship

Policy (NEP) 2032, the country's first entrepreneurship policy, strengthens this effort. NEP 2030 acts as a catalyst for Malaysia's achievements as a country that continues to develop sustainably through three main elements, namely; i) equitable growth: a progressive and structured economy driven by innovation and science, ii) sustainability: meeting the needs of the present without affecting future generations, and iii) inclusiveness: a fair and inclusive distribution of the economy at every level of the value chain, class, race, and geography [15].

## 2.2. Empirical Study on Sustainability

The literature commonly uses the term environmental, corporate social responsibility (CSR), and corporate sustainability (CS) to highlight organizations' social and environmental protection activities [8, 16]. Nowadays, CS is well-practiced in large organizations, where sustainability considerations are becoming a viable strategy for business and investment [16]. The adoption of sustainability reporting, publication of sustainability indices, and policy initiatives by the Malaysian government have facilitated this trend [17-19]. However, prior studies suggest that SMEs often neglect social and environmental sustainability practices, especially in emerging markets [20].

Extensive research has highlighted the barriers to adopting sustainability practices in SMEs [21-24]. Experts typically categorize these barriers into two groups: awareness and challenges. According to Johnson and Schaltegger [24], a significant barrier is the lack of awareness of sustainability issues, as many SME owners are often unaware of their company's environmental and social impacts. In another study, Bevan and Yung [25] investigated the implementation of sustainability-related activities in small to medium-sized construction enterprises in Australia. The finding reveals that SME owners who are less aware of the issues of sustainability have a lower level of implementation. Similar findings have been reported by Roxas and Chadee [26] (Philippines); [27] (Hungary); and Dos [28] (Brazil).

A study by Journeault, et al. [29] identified challenges from previous literature and summarised that SME owners frequently face challenges, such as a lack of time and resources, a lack of skills and expertise, resistance to change, and the complexity of sustainability management standards and tools when considering sustainability practices in their business. Yet Permatasari and Gunawan [9] argue that stakeholders can play a role in helping SMEs overcome the challenges through providing support, guidance, and incentives. Moyeen and Courvisanos [30] conducted interviews with six SEMs owners and discovered that most of them believe they lack the time, resource, and support necessary to participate in CSR activities.

Lee, et al. [31] examined the CSR landscape of Singapore SMEs by conducting a study that included 15 in-depth interviews and a web survey with 113 senior executives from the top 500 SMEs. They found that while there is moderate awareness of CSR, comprehension is low. The main drivers of CSR engagement were identified as immediate stakeholder relevance, individual values, stakeholder relationships, and governmental influences. However, the lack of various resources was a significant barrier to CSR implementation. Similarly, Parry [32] emphasized that external support, including expertise and finance, is increasingly vital for small businesses to engage in green activities as they are perceived to be complex. Onyido, et al. [33] revealed that limited access to capital and a shortage of skilled manpower are main barriers to developing environmentally sustainable businesses.

By highlighting the importance of ESG integration in SMEs in the context of climate change, Meath, et al. [12] argued that SMEs should implement ESG practices as a way to mitigate climate change risks, such as physical risks (e.g., extreme weather events) and transitional risks (e.g., changes in regulations and market trends). The study also provides several examples of ESG practices that SMEs can implement, such as energy-efficient technologies, sustainable supply chain management, and stakeholder engagement. In a more recent study, Moursellas, et al. [34] explore new strategies to enhance the level of sustainability practices among European SMEs. Findings of the study suggest three potential strategies to enhance sustainability performance of SMEs. These included reduced bureaucracy and simpler procedures for receiving funding, as well as the provision of

incentives, acquisition of more social-oriented certifications by SMEs, and enhancing recycling practices by selling SMEs' waste to recycling companies.

Finally, Alayón, et al. [35] examined the barriers and enablers of ESG implementation in SMEs. The authors suggested that SMEs face several barriers, including a lack of resources, knowledge, and awareness on ESG, as well as a perception that ESG practices are not relevant nor applicable to their business. On the other hand, the enablers of ESG implementation in SMEs include regulatory pressure, stakeholder expectations, and the potential benefits of ESG, such as cost savings and improved reputation.

In conclusion, while the Malaysian government has implemented robust sustainability initiatives targeting publicly listed companies, there's a notable oversight concerning SMEs, despite their dominance in the business landscape. Empirical studies highlight challenges such as lack of awareness, limited resources, and resistance to change faced by SMEs in adopting sustainability practices. This underscores the urgent needs of significant efforts made by the Malaysian government and regulatory bodies to promote sustainability among SMEs, primarily through policies, guidelines, and initiatives.

### 3. METHODOLOGY

#### 3.1. Research Design and Sampling

To explore the experts' perspectives, this study adopted a qualitative approach using focus group discussion (FGD). This method allowed for deeper insights into the issues of sustainable practices among SMEs. The FGD followed the four major steps described by Morgan, et al. [36]. These include research design, data collection, analysis, and reporting of results, as shown in Figure 1 (adapted from the study of Nyumba, et al. [37]). In the first steps, authors identified research design through a clear definition of research objectives and identified appropriate participants to discuss related issues at a suitable location. To facilitate the data collection process in step 2, this study developed list of semi-structured questions based on the results of the survey as guidance during the FGD session. Prior to the FGD, we had completed a research survey among 200 SME owners located in Perlis, Kedah, and Penang. Specifically, in the survey, we evaluated the determinants of sustainability practices in SMEs. Among the highlighted findings are that awareness, knowledge, business partners, culture, firm reputation, and competitors, play a significant role in encouraging business owners to implement sustainability in their businesses. However, this study does not aim to highlight all survey findings, as the questionnaire results guided the creation of semi-structured FGD questions. The discussions were audio-taped for later transcription, with the consent of the respondents. Data collected from the FGD were then transcribed and analysed using thematic analysis. Finally, this study prepares a report for the selected target audience, such as academics, policymakers, and practitioners.

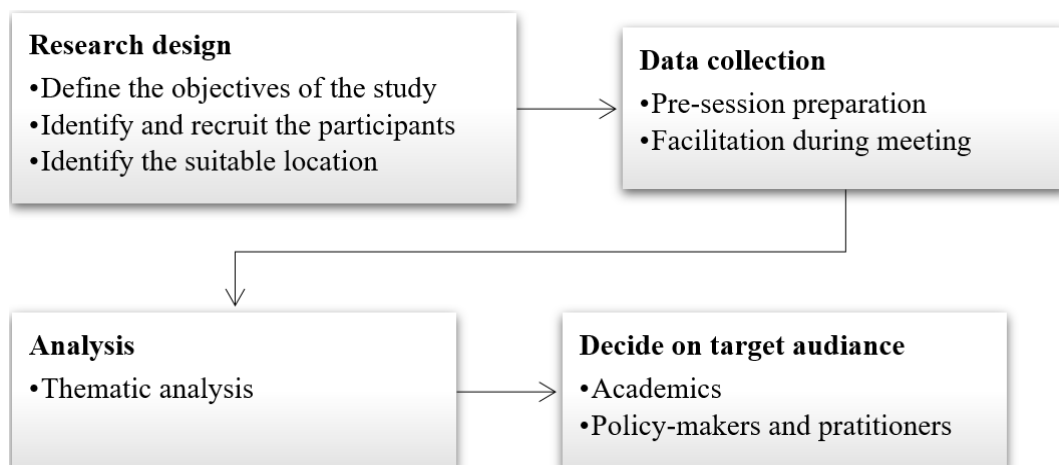


Figure 1. Flow chart of the steps of the focus group discussion technique.

This study used the purposive sampling technique. Purposive sampling enhances the efficiency and effectiveness of gathering the information required by selecting respondents for a specific purpose [38]. The sample for this study consisted of two academicians, four bank staff at the executive officer level, and one director of SME Corporation as presented in Table 1. The respondents were selected based on their experience, either in dealing with SMEs, managing sustainability issues among entrepreneurs, or conducting academic research on sustainability issues. Four representatives from the Institut Masa Depan Malaysia (MASA), the research funder, attended this FGD in addition to the seven key respondents. The aim is to support the FGD as well as to obtain views related to the issues discussed.

**Table 1.** Focus group discussion respondents.

No.	Position
1.	Senior lecturer, public university
2.	Senior lecturer, public university
3.	Assistant branch manager, credit guarantee corporation (CGC)
4.	Relationship manager, small and medium enterprise (SME) bank
5.	Director of small and medium enterprise (SME) corporation
6.	Relationship manager, bank Rakyat
7.	Executive officer, Maybank

### 3.2. Data Analysis

In this study, we used a deductive approach using thematic analysis to cover the details of the outcomes of the data. We started by transcribing the tapes of the FGD. The transcripts were then reviewed independently with the intention of getting a sense of the overall view of the discussion. Along the reviewing process, the important statements were highlighted for a better understanding of the pattern. Data coding was accomplished in two stages. The first-order codes were created after reviewing the transcript of the FGD using open-coding methods. The first-order coding was identified based on numerous common keywords used by the FGD respondents and was used to observe broad issues discussed by the respondents. Keyword-in-context is especially important in FGD because of the interactive nature of focus groups [39]. Thus, each word expressed by a focus group member was interpreted with respect to the words uttered by all other members of the focus group. We then eliminated and combined the first-order code to generate second-order themes that lead to third-order dimensions.

## 4. RESULTS AND DISCUSSION

Businesses may increase their long-term sustainability and resilience in the face of global challenges by prioritizing ESG factors. Thus, exploring the experts' opinions and perspectives on sustainable practices among SMEs has become increasingly important, considering the present business environments under globalisation and vertical integration, as it can help businesses comply with local regulations, minimise supply chain risks, and attract customers, investors, and employees. Recent observations indicate that sustainability issues have garnered significant attention from various investors and stakeholders, as they not only safeguard the environment, but it has been observed in the recent past that the issues of sustainability have been gaining considerable attention from various investors and stakeholders, as not only does it protect the environment, but it also improves efficiency and profitability. Based on the discussion, majority of the respondents agreed that sustainability practices are essential at all levels of business, regardless of size and status. However, implementing sustainability in micro- and small-sized companies is more difficult than in medium- and large-sized companies.

Respondent 1:

*"Manufacturing companies, Sdn. Bhd. or enterprise companies with greater stability are more likely to implement ESG practices. Micro and small companies, on the other hand tend to lack knowledge about ESG. This is the company that always has problems."*

Respondent 2:

"The new start-up micro is quite difficult, and when we make an annual visit, for the first year, it is still good, and in the second year, the business is gone."

Respondent 3:

"There is no need to exclude small companies in relation to ESG. If the level of the company is higher, the level of ESG is also higher. So, I would suggest that the screening be done by categories, small, medium, and large."

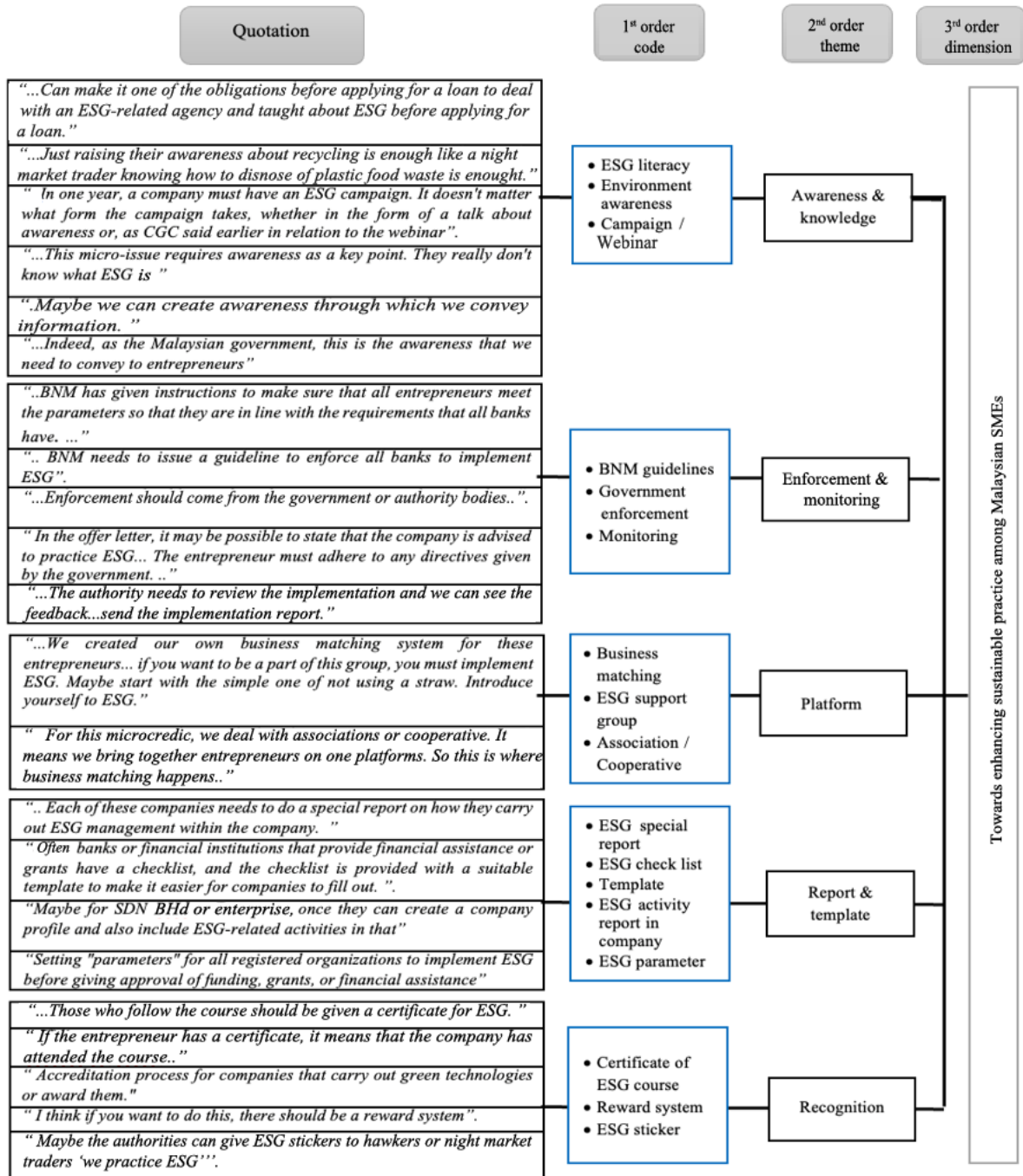


Figure 2. Analysis of focus group discussion (FGD).

The FGD findings clearly indicate that sustainability is often associated with large and stable companies as opposed to SMEs. Previous studies have also contended that integrating sustainability into a business is challenging for SMEs, especially start-up companies. Further investigation through the thematic analysis yielded five second order themes that represent issues on how SMEs can engage in the uptake of sustainability practices

(see Figure 2). These include awareness and knowledge, report and template, platform, enforcement and monitoring, and recognition. This result is in line with the findings in China by Zhu, et al. [40] and Qian, et al. [41] who reported that weak implementation of environmental management accounting among SMEs is due to a lack of awareness, inadequate resources, a lack of stakeholder support, the ineffective role of professional bodies, and the weakness of environmental legislation.

#### 4.1. Awareness and Knowledge

The majority of the respondents were in consensus that lack of awareness and knowledge is one of the major reasons frequently attributed to limited implementation of sustainability by SMEs, especially smaller companies. Most of the small companies are unaware of the importance of sustainability to their business and the future generation. It is even worse when business owners do not understand what sustainability means. This causes them not to apply sustainability in their business activities, and they often see such practices as not relevant compared to large companies.

Respondent 4:

*“Sometimes, when we ask entrepreneurs what they understand about ESG, they say they don’t understand. Therefore, it is crucial to provide them with information and education on topics related to ESG, enabling them to gain a deeper understanding.”*

The results support the findings of Roxas and Chadee [26]; Dos [28] and Bevan and Yung [25]. Their findings suggest that higher awareness and knowledge of sustainability issues lead to higher levels of implementation in SMEs. Therefore, more action is required to increase the awareness and knowledge among SMEs. Some of the respondents suggested that managers of the SMEs should take the initiative to organise ESG-related campaigns, such as talks on ESG, in order to expose their staff to the importance of ESG as well as to build a sustainability culture in the company. Besides, external support, such as from the government, external agencies, and financial institutions, should play a role in educating SMEs on sustainability issues. For example, a financial institution can educate the SMEs on sustainability by placing a condition that every SME that applies for financing will be required to join a webinar on ESG provided by a related agency prior to the allocation of financing.

Respondent 2:

*“Every year, a company should organise ESG campaigns. It doesn’t matter what form the campaign takes, whether in the form of a talk about awareness, or as CGC said earlier in relation to the webinar.”*

*“I would recommend that SMEs participate in a webinar on ESG so that they have idea and knowledge related to ESG.”*

#### 4.2. Enforcement and Monitoring

Many countries have identified enforcement and monitoring as significant barriers to sustainability practices among SMEs [34, 40, 42-44]. In Malaysia, no policy or regulation has been introduced to encourage the implementation of sustainability in SMEs. The existing policies related to sustainability are focused on companies with corporate status, or PLCs. For example, PLCs should disclose all sustainability activities according to established guidelines. According to the FGD respondents, the government or a relevant authority needs to take enforcement initiatives by requiring every company, regardless of size, to comply with the parameters issued by the authoritative body, especially when companies apply for facilities provided by the government.

Respondent 1:

*“Enforcement of sustainability practices needs to come from the government. Every entrepreneur tends to comply with the rules set by the government or related authoritative bodies.”*

*“Furthermore, most SMEs think that adoption of sustainability does not have any effect or minimal impact in terms of profits for the company; rather, it involves additional costs and burden to new and small companies.”*

Over the years, the Malaysian government has introduced various financial initiatives to improve the SME financing ecosystem in Malaysia. In order to realize this goal, the government has engaged banking institutions to channel financial initiatives to qualified SMEs to expand their businesses. The top management of the bank has instructed several banking institutions to conduct ESG screening for SMEs applying for financing, in support of the sustainability agenda. However, this method has failed to be implemented effectively since the instructions for the implementation of ESG screening have not been done comprehensively at the level of banking institutions. The banks have not received instructions to conduct the ESG screening. As a result, SME entrepreneurs have the option to apply for financing from banks that do not carry out ESG screening as a requirement for funding applications.

Respondent 7:

*“Every customer, regardless of the type of business, needs to undergo an ESG screening. For example, if they implement sufficient working hours or install a solar system. So, from there, we can identify which category they are in, either low risk, high risk, or medium risk. If the company is high-risk, we will also continue but depending on the scoring. But if they are under low-risk business, our priority is for the company that practices ESG. For the scoring, we will use a checklist issued by the bank based on staff evaluation. Based on our evaluation, the company must have implemented at least one from the ESG checklist, but this approach is less effective because there is no enforcement from the government or Bank Negara Malaysia (BNM) for every bank to perform ESG screening. Therefore, financing approval is still based on the company’s credit score. The ESG checklist is just as a valuable to the company for financing applications.”*

Respondent 4:

*“I think we need someone to monitor them to see their progress. In terms of social, what is the meaning, and what should they do? After you have come up with the checklist, then you need to convince the SMEs on the benefits to them of doing it. It’s very difficult to convince them because it involves cost. It’s just not about the campaign, we need to tell them how to do it.”*

Respondent 5:

*“For monitoring group, that is one of the ecosystem requirements. We need to have a monitoring agency to monitor whether they (SMEs) follow the rules. The checklist is the other component, but it must be tailored to the specific business sector.”*

Based on the FGD, it seems that there is a need for stronger enforcement and monitoring of sustainability practices among SMEs. The government should take the lead in encouraging SMEs to integrate sustainability into their businesses, as they are more likely to comply with rules set by the government or authoritative bodies. Moreover, convincing SMEs about the benefits of sustainability practices is an important component of a sustainable ecosystem.

#### 4.3. Support Group Platform

The absence of an ESG platform that entrepreneurs can refer to is one of the barriers for entrepreneurs trying to integrate sustainability into their business operations. For instance, Johnson and Schaltegger [24] contended that lack of sustainability awareness is one of the reasons for limited implementation of sustainability by most SMEs, as the owners are often unaware of their company’s environment and social impact. Another suggestion from the FGD respondents is to provide a suitable platform for SMEs to adopt ESG practices in Malaysia. Since most SMEs are unaware of and lack knowledge about sustainability, it is necessary to provide this group with more sustainability-related exposure. Therefore, the existence of a platform is important to expose entrepreneurs to issues related to ESG, as this platform can gather SMEs and entrepreneurs from various sectors at different levels. In addition to entrepreneurs, several related agencies, such as cooperatives or associations, and large companies involved in the SDG and ESG, can be on the platform to help entrepreneurs implement sustainability through advisory services, capacity building, as well as networking. This platform can allow entrepreneurs and related agencies to interact more closely and encourage sustainability practices in SMEs. Additionally, the platform can provide the necessary tools and support to assist SMEs in adopting and adhering to ESG practices more effectively.

Respondent 2:

*“We can create a platform for an ESG support group, where the entrepreneurs can deal with ESG-related agencies and be educated on issues related to ESG.”*

Respondent 6:

*“We bring together entrepreneurs on one platform. So, this is where support groups and business matching happen. The entrepreneurs will hold a meeting every three months for about 10 people, and they can share about their products and how they can integrate sustainability in their business, but with support from a related agency. We can also put a condition that if they want to join this group, they must implement ESG. Maybe start with the simple one, which is not using straws.”*

Based on FGD, several financial institutions require SMEs to complete an ESG checklist during the financing application process. Failure to complete the checklist can result in the application being rejected. Thus, providing the right platform could help SMEs prepare and acquire the appropriate documents and practices before submitting their financial applications.

#### 4.4. Report and Template

The preparation of sustainability reports is another issue in enhancing sustainability practices among businesses. Through sustainability reporting, companies can enhance their performance and be more transparent about the risks and opportunities they face. In addition, it gives stakeholders a deeper picture of performance beyond the bottom line. In Malaysia, a New Corporate Social Reporting Framework was introduced by Bursa Malaysia in October 2015 as a guideline for PLCs to report their sustainability activities. However, the SMEs are exempted from preparing the sustainability reports, which means these companies do not perform their role in helping to achieve the country's sustainability agenda. Apart from giving awareness to SMEs in the form of webinars, it is necessary to encourage SMEs to report their sustainability activities, for example, operations involving waste management, as a starting point to expose them to more inclusive sustainability practices. Moreover, the implementation of sustainability reports by SMEs provides a greater opportunity for these companies to obtain financial assistance from financial institutions that now care about companies that carry out sustainability activities. However, to guide the preparation of a sustainability report, it is necessary for the authoritative body must provide a template and ESG checklist for the SMEs.

Respondent 1:

*“So, we want to make it a requirement for all SMEs that they report on how they manage the environment so that these companies can get help from other financial institutions. Perhaps, a brief report on the company's efforts in adapting ESG within the company,”*

*“For enterprises, it may be simpler compared to Sdn. Bhd. I am not sure if there is information about ESG in the company's audited accounts. If it is not in the report, each of these companies should do a special report on how it carries out ESG management in the company. This is one of my suggestions as well. Or it's easier to say that the template provided is in the form of a checklist. Commonly, banks or financial institutions that provide financial assistance or grants have a checklist, and the checklist is provided with a suitable template to make it easier for companies to fill up.”*

Respondent 5:

*“We should encourage small and medium companies to prepare the company profile, and they have to include or report their ESG-related activities in the report- as long as we know that the company practices ESG.”*

Considering the different sizes of SMEs, it is necessary to create different templates and ESG checklists according to the size and suitability of the company. FGD respondents suggested that:

Respondent 3:

*“The ESG checklist should be categorized in three different categories for SMEs: micro-, small, and medium. This is because each and every company is different. A company with five employees, for example, should not follow the ESG checklist and template for a large company.” This might be difficult for the small company to implement ESG.”*

The findings suggests that SMEs can enhance their sustainability practices by implementing report preparation as another effective approach. This can allow SMEs to communicate their performance and promote transparency in their sustainability practices. Furthermore, sustainability reports prepared by SMEs add value to the company and enable them to benefit from financing assistance provided by financial institutions and the government. However, special guidance is required to facilitate the SMEs to prepare their sustainability report. Therefore, it is necessary to provide them with a suitable template and an ESG checklist tailored to the size and needs of the company.

#### 4.5. Recognition

Based on the discussion with the FDG respondents, they strongly agreed that a reward system, such as recognition, is a critical factor towards promoting the implementation of ESG among SMEs. It is essential to recognise the efforts made by SMEs to adopt and implement sustainability, as this recognition can serve as a motivator for SMEs to continue their efforts and encourage other SMEs.

Respondent 6:

*"I think if we want to encourage sustainability, we should have a reward system."*

Respondent 3:

*"Accreditation process for the company that implemented green technology or giving award to them. This can encourage entrepreneurs to implement ESG. We can also give sustainability stickers to hawkers who practice sustainability practices, such as recycling, as a recognition of their effort."*

Certification is one way to provide SMEs with recognition. Obtaining ESG certification can demonstrate an SME's commitment to sustainability and responsible practices, which can help build trust with customers, suppliers, and investors. This result supports the previous study conducted by Moursellas, et al. [34] who reported that European SMEs believe that certifications not only enhance their sustainability practices, but they also serve as attractions for new customers and promote their business at the international level. In Malaysia, several organisations offer ESG certification, such as the Malaysian Green Technology and Climate Change Centre (MGTC) and the Global Sustainable Certification Institute (GSCI). However, the uptake of ESG certification among SMEs in Malaysia remains low due to various reasons, including a lack of awareness and understanding of the certification process and its benefits. Another way to recognise the efforts of SMEs is through awards and competitions. For example, the SME Sustainability Award in Malaysia recognises SMEs that have made significant contributions to sustainable development. Such recognition can help promote SMEs' efforts to adopt ESG practices and increase their visibility and credibility in the industry.

In addition, recognition can come in the form of financing and investment opportunities. Investors and financial institutions increasingly prioritise companies that implement ESG and consider them lower-risk companies. Therefore, SMEs that are committed to ESG practices may have better access to financing and investment opportunities. For instance, the Malaysian government's "SME Green Financing Scheme" offers financing to SMEs that adopt ESG practices, thereby recognising and supporting their efforts.

## 5. CONCLUSION

This study highlights the importance of sustainability practices in SMEs. The majority of experts agreed that sustainability practices are essential at all levels of business, but implementing them can be more challenging for micro- and small companies. Findings of this study provide some important practical implications for research and sustainability practices, as sustainability practices, particularly in SMEs, continue to be an important research issue. Investigation through thematic analysis reveals that SMEs can engage in sustainability practices through improving awareness and knowledge, utilising reporting templates, utilising platforms, implementing enforcement and monitoring, and gaining recognition. Previous research has found that SMEs face challenges in implementing

sustainability due to factors such as insufficient awareness, insufficient resources, insufficient stakeholder support, and ineffective environmental legislation [29]. Overall, the discussion emphasises the need for SMEs to prioritise sustainability practices to remain competitive in the current business environment.

Lack of awareness and knowledge about sustainability issues is a major hindrance for SMEs in adopting sustainability practices. Experts concurred that SMEs require education and information regarding the significance of sustainability for their businesses and future generations. The owner of the company should take the initiative to organize ESG-related campaigns, such as talks, seminars, and webinars, to expose staff to the importance of sustainability issues and build a culture of sustainability in the company. The external support of government agencies, financial institutions, and other related agencies is also critical for educating SMEs about sustainability issues. For example, financial institutions could make it compulsory for SMEs to participate in webinars or training sessions related to ESG before applying for financing. Furthermore, when the entrepreneurs have knowledge about the importance and advantages of sustainability, their level of awareness and interest could motivate them to integrate ESG into their business operations. In this regard, with more detailed information about how to implement sustainability and what the benefits of sustainability are, they could lean towards considering implementing sustainability as part of their business objectives. According to the FGD, the experts also suggested that creating a platform for SMEs to engage with agencies related to ESG would be helpful in increasing awareness and knowledge on sustainability issues.

There is a need for enforcement and monitoring by the government to encourage SMEs to comply with sustainability parameters, including the ESG checklist. The establishment of a monitoring agency and the development of checklists specific to different business sectors are also suggested as potential solutions to enhance the enforcement and monitoring of sustainability practices in SMEs. The FGD respondents also suggested that SMEs should be encouraged to report their sustainability activities, especially waste management activities, to expose them to more inclusive sustainability practices. Additionally, implementing sustainability reports in SMEs will provide an opportunity for these companies to obtain funding assistance from financial institutions. However, the respondents emphasized the need for the authoritative body to provide templates and ESG checklists for SMEs to guide the preparation of sustainability reports. Introducing different templates and checklists for different levels of businesses, such as micro-, small, and medium enterprises, is essential to ensure that they suit the capabilities of the business.

Given that sustainability implementation in Malaysia is still in its early stages, the development of an ESG platform that provides SMEs with guidance and advice on how to implement ESG across all sectors can be highly beneficial towards achieving the sustainability agenda. A platform that gathers ESG-related agencies and SME entrepreneurs from different sectors could effectively help this group consider ESG in their business activities. This platform can enable SME entrepreneurs to communicate with each other and gain insights into how to integrate sustainability into their businesses. Since FGD respondents suggested that each SME report its sustainability activities in the company profile, then this established platform could facilitate the implementation of ESG report preparation among SMEs. Hence, creating an appropriate platform that provides guidance and support to SMEs could enable them to overcome ESG implementation challenges effectively.

Lastly, recognition is considered a critical factor for SMEs to successfully implement and embrace ESG practices. ESG certification and awards, as well as financing and investment opportunities, are ways of providing recognition to SMEs that have made efforts to adopt and implement ESG practices. Recognition can also serve as a motivation for SMEs to continue their efforts and encourage other SMEs to follow suit. Finally, recognizing SMEs that adopt and implement ESG practices can help promote sustainable development and improve their credibility and visibility in the country. This study makes at least three significant contributions to understanding and fostering sustainability practices among SMEs in Malaysia. First, the study sheds light on the requirements necessary to support sustainability practices among SMEs. By exploring opinions and experiences of experts, the

research highlights crucial factors such as awareness, reporting mechanisms, platforms for collaboration, monitoring systems, and recognition programs. Second, the findings of the study can inform policy development aimed at enhancing sustainability practices among SMEs in Malaysia. Lastly, this research provides practical guidance by identifying the key elements necessary for SMEs to adopt and integrate sustainability into their business operations. By understanding the significance of awareness, reporting, platforms, monitoring, and recognition, SMEs can develop strategies to incorporate sustainability into their business models effectively.

Although this study has provided new insights into the previously mentioned subject matter, it still has some limitations, which could be used as future research opportunities. First, prior to the FGD, this study had developed initial findings from questionnaires collected from SMEs located only in three different states, i.e., Kedah, Perlis, and Penang. Since the findings from questionnaires have been used as a basis for the FDG, the discussion among experts is limited to the results of preliminary findings obtained from questionnaires collected from three states only. For future research, extensive sampling is recommended to increase the generalizability of the findings of the questionnaire, which indirectly affect the findings of the FGD. Besides that, this study only involved representatives from SME Corporation, financial institutions, and academics as respondents in the FGD. It is highly recommended that future researchers invite entrepreneurs who have experienced the implementation of sustainability, such as PLCs, as FGD respondents. Involving this group could provide more in-depth input to improve the existing ecosystem, especially in promoting sustainability among SMEs.

**Funding:** This research is supported by Institut Masa Depan Malaysia (Grant number: 21224).

**Institutional Review Board Statement:** The Ethical Committee of the Islamic Business School, Universiti Utara Malaysia.

**Transparency:** The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.

**Competing Interests:** The authors declare that they have no competing interests.

**Authors' Contributions:** All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

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