

## **THE ROLE OF THE GOVERNMENT IN FACILITATING ESG ADOPTION AMONG MALAYSIAN SMEs**

Tengku Adeline Adura Tengku Hamzah<sup>1\*</sup>, Najihah Musa<sup>1</sup>, Noor Zalina Mahmood<sup>2,3</sup>,  
Raja Shazrin Shah Raja Ehsan Shah<sup>4,5</sup>

<sup>1</sup>Department of Geography, Faculty of Arts and Social Sciences, , Universiti Malaya,  
Kuala Lumpur, Malaysia

<sup>2</sup> Universiti Malaya Centre of Excellence for ESG, Universiti Malaya, Kuala Lumpur, Malaysia

<sup>3</sup> Kong Zi Institute, Universiti Malaya, Kuala Lumpur, Malaysia

<sup>4</sup>Institute of Advanced Studies, Universiti Malaya, Kuala Lumpur, Malaysia

<sup>5</sup>Galaxy Tech Solutions (KL) Sdn Bhd, Kuala Lumpur, Malaysia

Email: adelineadura@um.edu.my

### **ABSTRACT**

Environmental, Social and Governance (ESG) practices are becoming important for Small and Medium Enterprises (SMEs) in Malaysia to stay competitive and to meet global sustainability standards. However, SMEs often face challenges extending from limited resources to lack of knowledge and confusing ESG requirements. This paper intends to investigate into the role of the government in helping SMEs with ESG adoption by focusing on two guidelines: the National Industry ESG Framework (i-ESG) or the i-ESGStart by the Ministry of Investment, Trade and Industry (MITI) and the Simplified ESG Disclosure Guide (SEDG) for SMEs in Supply Chain by Capital Markets Malaysia (CMM). i-ESGStart gives comprehensive instructions for reporting and improving ESG practices while SEDG, on the other hand is simpler and easier to use, especially for smaller companies just starting with ESG. Thi paper begins with description about the i-ESGStart and SEDG, and followed by discussion on the strengths and weaknesses of both guidelines and concludes that they can complement each other to help SMEs adopt sustainable practices and enhance ESG transparency.

**Keywords:** *Environmental, Social, and Governance (ESG); Micro, Small, and Medium Enterprises (SMEs); Sustainability reporting; i-ESG; SEDG*

### **INTRODUCTION**

Environmental, Social and Governance (ESG) refers to criteria used to evaluate how a company manages sustainability, ethical issues and governance. ESG includes many factors, such as reducing environmental impact, improving social responsibility and ensuring good governance. Globally, ESG has become more important as investors, governments and consumers want businesses to act more responsibly and sustainably. The adoption of ESG in Malaysia is becoming more important to help solve environmental and social challenges and to keep up with global trends. The government and regulators have introduced policies to align business practices with global sustainability standards such as Climate Change and Principle-based Taxonomy (CCPT), Sustainable and Responsible Investment (SRI) Sukuk Framework and mandatory sustainability reporting for listed companies.

To further support ESG alignment, several Malaysian government agencies have developed national-level frameworks, guidelines, roadmaps and codes (**Table 1: Table 1**). Among these are the National Energy Transition Roadmap (NETR), National Policy on Biological Diversity, the Low Carbon Mobility Blueprint, and the National Industry ESG Framework (i-ESG), among others. These documents are strategic tools and reference points to guide industries in various sectors like energy, environment, transportation, and finance in adopting ESG-aligned practices. Agencies such as Bank Negara Malaysia, the Securities Commission, and Bursa Malaysia have also published ESG and sustainability reporting guidelines and taxonomies to assist businesses in aligning with sustainability standards.

**Table 1:** ESG-Related Instruments by Malaysian Government Agencies

<i>Agency</i>	<i>Initiative</i>	<i>Type</i>
<i>Bank Negara Malaysia (BNM)</i>	Value-Based Intermediation Financing and Investment Impact Framework	Framework
	Taskforce on Climate-related Financial Disclosures (TCFD) Application Guide	Guideline
<i>Bursa Malaysia</i>	Bursa's Sustainability Reporting Guide	Guideline
	Sustainable, Socially Responsible & Ethical PLCs	Guideline
<i>Malaysia Forest Fund</i>	REDD Plus Finance Framework	Framework
<i>Ministry of Economy (KE)</i>	National Energy Transition Roadmap (NETR)	Roadmap
	Natural Gas Roadmap (NGR) (coming soon)	Roadmap
<i>Ministry of Finance (MOF)</i>	Principle for Good Governance (PGG)	Framework
	SDG Sukuk Framework	Framework
	Principles on Good Governance for Government Linked Investment Companies	Framework
	National Industry ESG Framework (i-ESG)	Framework
<i>Ministry of Investment, Trade &amp; Industry (MITI)</i> <i>Ministry of Natural Resources and Environmental Sustainability (NRES)</i>	Nationally Determined Contribution (NDC) Roadmap	Roadmap
	Long Term Low Emissions Development Strategy (coming soon)	Framework
	National Policy on Biological Diversity	Framework
	Malaysia Roadmap Towards Zero Single-Use Plastics	Roadmap
	National Marine Litter Policy and Action Plan	Roadmap
	National Biomass Action Plan	Roadmap
<i>Ministry of Plantation and Commodities (KPK)</i>		
<i>Ministry of Science, Technology and Innovation (MOSTI)</i>	Hydrogen Economy and Technology Roadmap	Roadmap
<i>Ministry of Transport (MOT)</i>	Low Carbon Mobility Blueprint	Roadmap
<i>MyPower Corp</i>	Future Proofing Malaysian Electricity Supply Industry (MESI)	Roadmap
<i>National SDG Centre</i>	National ESG Strategic Plan (coming soon)	Roadmap
<i>Securities Commission Malaysia (SC)</i>	National Sustainability Reporting Framework	Framework
	Malaysia Code of Corporate Governance	Code
	Sustainable Responsible Investment (SRI) Taxonomy	Framework
	Simplified ESG Disclosure Guide (SEDG) for SMEs in Supply Chain	Guideline
	Malaysian Code for Institutional Investors	Code
	SRI Sukuk and SRI-linked Sukuk Framework	Guideline
	ESG Quick Guide for SMEs	Guideline
<i>SME Corp</i>		

Apart from policy frameworks, various incentives and initiatives have been introduced to encourage ESG implementation among businesses (**Table 2**). These consist of tax-based incentives like the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE), Low Carbon Transition Facility, and financial assistance such as the Green Technology Financing Scheme (GTFS). There are also non-financial incentives offered by the government, including training programs (e.g., Green Academy), certification schemes (e.g., SIRIM 55: 2023 - ESG Management System Certification), and

online tools (e.g., ESG Reporting and LCOS SME Carbon Footprint Calculator). These combined efforts seek to provide SMEs with an enabling environment to embrace sustainable business practices and gradually move toward structured ESG reporting.

**Table 2:** Government-Led Incentives and Support Mechanisms for ESG Adoption in Malaysia

<i>Agency</i>	<i>Name of incentive/initiative</i>	<i>Type</i>
<i>Securities Commission Malaysia (SC)</i>	Certified Capital Market Professional in Sustainable and Responsible Investment	Certification
<i>Standards and Industrial Research Institute of Malaysia (SIRIM)</i>	SIRIM 55: 2023 - ESG Management System Certification	Certification
<i>Malaysia Forest Fund</i>	Forest Conservation Certificate	Certification
<i>Ministry of Finance (MOF)</i>	My SDGFund	Financial incentive
	Government Green Procurement (GGP)	Policy
	Carbon Pricing Instrument study	Initiative
<i>Bank Negara Malaysia (BNM)</i>	ESG Jumpstart for SMEs portal	Digital tool
	Low Carbon Transition Facility	Financial incentive
<i>Bursa Malaysia</i>	Bursa Carbon Exchange	Trading platform
	ESG Reporting Platform	Digital tool
	Bursa FTSE4Good Index	Recognition
<i>Malaysian Investment Development Authority (MIDA)</i>	ESG Adoption Domestic Investment Accelerator Fund	Financial incentive
<i>SME Corp</i>	PKS Lestari	Capacity building, financial incentive
<i>Malaysia Green Technology Council (MGTC)</i>	LCOS SME Carbon Footprint Calculator	Digital tool
	Green Technology Financing Scheme (GTFS)	Financial incentive
	Green Academy	Education/Training
	Energy Management Gold Standard (EMGS)	Certification
	Low Carbon Cities 2030 Challenge	Program
	Green Investment Tax Allowance (GITA) Project	Tax incentive
	Green Investment Tax Allowance (GITA) Asset	Tax incentive
	Green Income Tax Exemption (GITE) Solar Leasing	Tax incentive
	MyHijau mark	Recognition
<i>Sustainable Energy Development Authority (SEDA)</i>	Net Energy Metering Scheme (NEM)	Financial incentive

In Malaysia, Bursa Malaysia requires public listed companies (PLCs) to report their sustainability practices. Effective from financial year end (FYE) 2023 onwards, PLCs must now report on common sustainability matters, align with Task Force on Climate-related Financial Disclosures (TCFD) recommendations, include a transition plan for a low-carbon economy and provide a statement of assurance on sustainability disclosures (Bursa Malaysia, 2022). While larger corporations are leading in ESG, small companies like SMEs, which make up most businesses in Malaysia, are also starting to see importance of ESG for their growth and survival (Alliance Bank, 2023). There is no compulsory requirement to report on ESG for SMEs in Malaysia, but they are encouraged to follow voluntary guidelines. This is because SMEs are part of the supply chain of larger corporations, and they require their vendors and suppliers to be ESG-compliant to ensure their products can be exported to other countries (Salin et al., 2023).

For example, the European Union introduced the Carbon Border Adjustment Mechanism (CBAM), which places tariffs on imported goods based on their carbon footprint. This aims to prevent ‘carbon leakage’, where production shifts to countries with less stringent climate policies, ensuring that EU climate goals are not undermined by imports of carbon-intensive products (European Commission, 2024). Due to policies like CBAM and other similar requirements, there is increasing pressure for larger companies to have their supply chains adopt sustainable practices to avoid penalties. Therefore, it is expected that SMEs will eventually need to comply with similar ESG requirements. Other than

compliance measure, ESG reporting can also function as a strategic tool to increase profitability, improve investor relations, ensures corporate viability and offers a competitive advantage (Gürlevük, 2024). However, adopting ESG and preparing sustainability reports can be a challenge for SMEs because they often lack the necessary resources, such as funding, technology and skilled personnel to implement and monitor these practices effectively. Additionally, the variety of ESG frameworks and standards such as Global Reporting Initiatives (GRI), International Financial Reporting Standards (IFRS) and ISO certifications adds to their confusion, making it difficult for them to decide which one to follow (Salin et al., 2023; Alliance Bank, 2025; Sklavos et al., 2025).

Therefore, to address this problem, the Malaysian government through ministry and government-linked agencies have created voluntary ESG guidelines to support SMEs. Examples include the National Industry ESG Framework (i-ESG), Simplified ESG Disclosure (SEDG) for SMEs in Supply Chains and ESG Quick Guide for MSMEs. The purpose of these guidelines is to facilitate SMEs' comprehension and adoption of ESG practices as well as aiding them in preparing their sustainability reports (Salin et al., 2023). This paper will discuss the roles of the government and government-linked agencies in supporting SMEs in Malaysia, focusing in the iESG and SEDG guidelines. These two documents are important in helping small companies to start their ESG journey and meet the demands of a more sustainable future.

## **SUSTAINABILITY REPORTING GUIDELINES TO FACILITATE SMES IN ADOPTING ESG PRACTICES**

While larger corporations often lead the way in ESG adoption, SMEs are not to be left behind. They form the backbone of Malaysia's economy, accounting for 96.9% of all establishments, or 1,101,725 firms, as of 2023 (SMECorp, 2024; DOSM<sup>a</sup>, 2024). These enterprises contribute to 39.1% to the country's gross domestic product (GDP) and employ 48.5% of the workforce (DOSM<sup>b</sup>, 2024). Given their significant impact, it is crucial for SMEs to adopt ESG practices to ensure sustainable economic growth.

Adopting ESG practices offers many benefits for companies, including improved efficiency, enhances competitiveness, gives better access to funding, builds a stronger reputation and supports long-term sustainability and growth. Integrating sustainable practices into business operations can help lower expenses and create access to new market opportunities (Mohammad & Wasiuzzaman, 2021; Alliance Bank, 2025). Sustainability reporting is also an important part of ESG. It helps companies shows what they are doing to manage environmental, social and governance issues. However, adopting ESG practices and preparing the sustainability report is a challenge for many SME. The abundance of frameworks and standards available, each with different requirements, has caused confusion to among smaller companies, making it difficult for them to decide which one to follow (Salin et al., 2023, Alliance Bank, 2025). This confusion might slow down or even prevents ESG adoption, especially among SMEs. To help address this challenge, the ministry and government-linked agencies have introduced ESG reporting guidelines for SMEs. The Ministry of Investment, Trade and Industry (MITI), through the i-ESG Framework, developed the i-ESGStart guideline, while Capital Markets Malaysia (CMM) introduced the Simplified ESG Disclosure Guide (SEDG) for SMEs in Supply Chain. These initiatives aim to support and simplify ESG adoption among SMEs by providing clear, practical, and accessible guidance for integrating sustainability into their business operations.

### **National Industry Environmental, Social and Governance (i-ESG) Framework**

The National Industry ESG Framework (i-ESG) was developed by the Ministry of Investment, Trade and Industry (MITI) to provide a detailed guide for industries in Malaysia, particularly focusing on the

adoption and implementation of ESG practices. With a primary focus on the manufacturing sector, this framework seeks to assist SMEs in incorporating ESG practices into their daily operations.

Alignment with both international and national standards and requirements is one of the framework's features. For international standards, it refers to frameworks like the Global Reporting Initiatives (GRI), European Sustainability Reporting Standards (ESRS) and International Financial Reporting Standards (IFRS). On national level, it aligns with Bursa Malaysia's Sustainability Reporting Guidelines, the Sustainable and Responsible Investment (SRI) Taxonomy, Bank Negara's Climate Change and Principle-based Taxonomy (CCPT) and Simplified ESG Disclosure Guide (SEDG) by Capital Markets Malaysia. By ensuring alignment with established benchmarks, the framework helps Malaysian industries stay competitive in both international and national markets. The framework adopts a phased approach, divided into two main stages; Phase 1.0: 'Just Transition' (2024-2026), and Phase 2.0: 'Accelerating ESG Practices' (2027-2030). The initial phase 'Just Transition' focuses on creating awareness about ESG and equipping companies with the tools and resources needed to begin their ESG journey. During this phase the government will prioritize training programs and financial support, particularly to assist SMEs.

Essential deliverables of this framework within Phase 1.0 includes the following;

- i) i-ESGReady – a self-readiness assessment tool for companies to assess their current ESG practices before embarking on their ESG journey
- ii) i-ESGStart – a starter kit designed to assist companies in developing their first sustainability report
- iii) streamlining disclosure processes into a centralized platform
- iv) offering incentives for the adoption of digital tools to calculate carbon footprints and greenhouse gas (GHG) emissions.

With the support of i-ESGReady and i-ESGStart, companies that have never created a sustainability report should be able to develop one within a year. This preparation will help them to meet stricter ESG requirements expected in Phase 2.0, ensuring a smoother transition. While this framework provides a comprehensive roadmap for industries to adopt ESG practices, this paper will specifically focus on one of its key deliverables – the i-ESGStart. The following section will explore the guidelines within i-ESGStart, highlighting its role in supporting businesses in their early ESG journey.

### ***i-ESGStart***

As part of Phase 1.0, i-ESGStart serves as a foundational tool to help companies, particularly SMEs that are new to ESG adoption, prepare their initial sustainability reports. It is a practical guideline with step-by-step instructions, illustrative examples and templates. The guideline approaches sustainability reporting step-by-step, allowing companies to make gradually improvements.

The disclosures are organized by year to help organizations build their capacity over time. For example, under the anti-corruption disclosure, companies begin with policies, confirmed cases and training. Later, whistleblowing mechanisms and trends will be added as reporting develops. This way, companies can gradually implement ESG practices which will facilitate improvement and increased transparency. The guide focuses on 10 topics, covering 52 disclosures across the three ESG pillars. Refer **Table 3** for full disclosures. For each disclosure, the guide provides detailed content, including a description, relevant formulas, required data, data sources and practical examples. It also lists national laws and regulations related to each topic. To assist with reporting, the guideline includes step-by-step methods, guidance on setting baselines and mitigation measures for improving performance. Additionally, the guide offers appendices containing flowcharts and sample forms to further simplify the reporting process.

**Table 3: i-ESGStart's Disclosures**

Pillar	Topic	Disclosure		
		1 <sup>st</sup> year	2 <sup>nd</sup> year	3 <sup>rd</sup> year
Environmental	Energy management	Total energy consumption Energy intensity	Renewable energy commitments	Trends and comparison
	Emission management	Scope 1 Scope 2	Scope 3 (Business travel & employee commuting)	Trends and comparison
	Water management	Total water consumed Total water efficiency	Waste water	Water usage and efficiency trend
	Waste management	Total waste generated Total waste directed to disposal	Total waste diverted from disposal	Trends and comparison Hazardous and non-hazardous waste
Social	Labour practices	Composition of all employees Working hours of all employees Salary and wages of all employees Total hours of training of all employees	Employee turnover CEO-to-employee salary ratio Due diligence on recruitment of migrant workers	Complaints on human rights Diversity and inclusivity
	Occupational safety & health	Number or non-fatal injuries Number of work-related fatalities Training on safety Healthcare provided for employees	Lost time incident rate Reporting injuries	Trends and comparison
	Community	Total community investment Total number of beneficiaries from the investment Percentage of spending dedicated to community investments		
Governance	Anti-corruption	Anti-corruption policies and programmes Confirmed anti-corruption cases	Anti-corruption policies and programmes Confirmed anti-corruption cases Training on anti-corruption	Anti-corruption policies and programmes Confirmed anti-corruption cases Training on anti-corruption Whistleblowing programme Trends and comparison
	Supply chain management	Proportion of spending on local suppliers Number of suppliers assessed for environmental impacts Number or suppliers assessed for social impacts		
	Data privacy and security	Number of complaints	Reporting and investigation	Trends and comparison

**Source:** Ministry of Investment, Trade and Industry (MITI). *National Industry Environmental, Social & Governance (i-ESG) Framework: i-ESGStart*. First Edition. 2023.

### **Simplified ESG Disclosure Guide (SEDG) for SMEs in the Supply Chains**

The Simplified ESG Disclosure Guide (SEDG) for SMEs in the Supply Chains is developed by Capital Markets Malaysia (CMM), an affiliate of the Securities Commission Malaysia. This guide is created to help companies decide what Environmental, Social and Governance (ESG) disclosure to track and report. The SEDG aims to give SMEs an easy way to monitor their progress, help stakeholders know what data to ask for, and guide standard-setters in shaping their policies. The guide focuses only on indicators that SMEs can measure and disclose to show their ESG progress. However, it does not cover areas like adopting sustainability practices, assessing or managing risks or identifying new business opportunities. The target users for this guide are SMEs that need to record ESG data, whether they are doing it voluntarily, being asked to by stakeholders or trying to qualify for incentives.

SEDG is based on various international and national standards and frameworks, including Bursa Malaysia's Listing Requirements and Sustainability Reporting Guide, FTSE4Good, GRI, IFRS S1 and S2, TCFD, and CDP. It contains 15 topics and 35 disclosures that apply to all industries (**Table 4**). For each disclosure, the guide provides an overview, related references from both national and international standards and frameworks and an additional guidance where it provides simple equation formulas or examples of activities or practices that can be included in the disclosure.

To make it easier for companies at different stages of their ESG journey, the disclosures are divided into three levels: Basic, Intermediate and Advanced. This way, companies can start with simpler requirements and gradually advance as they improve their sustainability efforts. There is no fixed timeline for when companies need to adopt these disclosures

In addition to the SEDG for SMEs in the Supply Chains, CMM also developed SEDG Sector Guides for five significant sectors in Malaysia's economy, i.e., Agriculture, Construction and Real Estate, Energy, Manufacturing, and Transport and Logistics. However, this paper will not discuss the SEDG Sector Guides because it focuses on comparing the SEDG for SMEs in Supply Chains with the i-ESGStart. These two guides are broader in scope, making a comparison with the more specific SEDG Sector Guide less appropriate.

**Table 4: SEDG's Disclosures**

Pillar	Topics	Disclosures		
		Basic	Intermediate	Advanced
Environmental	Emission	Total GHG emission in MtCO <sub>2</sub> e Scope 1 (direct) GHG emissions Total Scope 2 (indirect) GHG emissions	Total Scope 1 GHG emissions reduced as a direct result of reduction initiatives Total Scope 2 GHG emissions reduced as a direct result of reduction initiatives	Total Scope 3 (other indirect) GHG emissions Total Scope 3 GHG emissions reduced as a direct result of reduction initiatives
	Energy	The consumption of the following: <ul style="list-style-type: none"> <li>• Renewable fuel sources</li> <li>• Non-renewable fuel sources</li> <li>• Electricity</li> <li>• Heating (if applicable)</li> <li>• Cooling (if applicable)</li> <li>• Steam (if applicable)</li> </ul>	The reduction in consumption achieved as a direct result of conservation and efficiency initiatives: <ul style="list-style-type: none"> <li>• Non-renewable fuel sources</li> <li>• Electricity</li> <li>• Heating (if applicable)</li> <li>• Cooling (if applicable)</li> <li>• Steam (if applicable)</li> </ul>	
	Water	Total water withdrawn from all areas, by type: <ul style="list-style-type: none"> <li>• Purchased water</li> <li>• Surface water (if applicable)</li> <li>• Groundwater (if applicable)</li> <li>• Seawater (if applicable)</li> <li>• Produced water (if applicable)</li> </ul>		
	Waste	Total waste <ul style="list-style-type: none"> <li>• Generated</li> <li>• Diverted from disposal</li> <li>• Directed to disposal</li> </ul>	Total waste generated, diverted from and directed to disposal, broken down into: <ul style="list-style-type: none"> <li>• Hazardous and non-hazardous waste</li> <li>• Sector specific waste streams</li> <li>• Material composition</li> </ul>	Total hazardous and non-hazardous waste <b>diverted</b> from disposal broken down into the following recovery streams: <ul style="list-style-type: none"> <li>• Preparation for reuse</li> <li>• Recycling</li> <li>• Other recovery options</li> </ul> Total hazardous and non-hazardous waste <b>directed</b> to disposal broken down into the following disposal streams: <ul style="list-style-type: none"> <li>• Incineration (with energy recovery)</li> <li>• Incineration (without energy recovery)</li> </ul>

				<ul style="list-style-type: none"> <li>• Landfilling</li> <li>• Other disposal options</li> </ul>
	Materials	List the materials and total weights used to produce and package the company's primary products and services	The percentage of recycled input materials used to manufacture the company's primary products and services	
Social	Human Rights & Labour Standards	The number and nature of child labour and forced labour incidents	List the operations and suppliers considered to have significant risk for incidents of child labour and forced labour, including: <ul style="list-style-type: none"> <li>• Type of operation or supplier</li> <li>• Locations at risk</li> </ul>	
	Employee Management	The average hours of training per employee	The total number or employees and the turnover rate	
	Diversity, Equity & Inclusion	The percentage of the company's employees by: <ul style="list-style-type: none"> <li>• Gender</li> <li>• Age</li> </ul>	The percentage of the company's directors by: <ul style="list-style-type: none"> <li>• Gender</li> <li>• Age</li> </ul>	
	Occupational Health & Safety	The number of fatalities and injuries in the company	The total number and percentage of employees trained in health & safety standards	
	Community Engagement	The total amount of community investments and donations		List the company's operations with negative impact on local communities
Governance	Governance Structure	The number of directors in the company	List the governance structure of the board, including committees of the board and management	
	Policy Commitments	List the company's policies; including but not limited to: <ul style="list-style-type: none"> <li>• Code of Conduct</li> <li>• Anti-Corruption Policy</li> <li>• Whistleblowing Policy</li> <li>• Health &amp; Safety Policy</li> </ul>		
	Risk Management & Reporting	Report the year of the last submitted audited financial report	List the risk of company operations and activities, including but not limited to: <ul style="list-style-type: none"> <li>• Regulatory compliance risk</li> <li>• Business continuity risk</li> </ul>	List the sustainability risks of the company if applicable, including but not limited to: <ul style="list-style-type: none"> <li>• Climate-related physical risk</li> <li>• Climate-related transition risk</li> </ul>
	Anti-Corruption	Total number and nature of confirmed incidents of corruption	Total number and percentage of employees who have received training on the company's anti-bribery and anti-corruption policy	List the significant risks related to corruption
	Customer Privacy		Total number and nature of substantiated complaints received concerning breaches of customer privacy and loss of customer data	

**Source:** Capital Markets Malaysia. *Simplified ESG Disclosure Guide (SEDG) for SMEs in the Supply Chain*. Securities Commission Malaysia, 2023.

## METHODOLOGY

This study adopt qualitative methodology with content analysis being adapted as the main method to examine two ESG reporting guideline documents developed by Malaysian government agencies – the National Industry ESG Framework: i-ESGStart and the Simplified ESG Disclosure Guide (SEDG) for SMEs in the Supply Chain. These guidelines were developed, respectively, by the Ministry of Investment, Trade and Industry (MITI) and the Capital Markets Malaysia, an affiliate of the Securities Commission Malaysia. These guidelines were chosen for this study because they are publicly available and specifically designed for SMEs.



Both guidelines were reviewed in detail, and themes were identified, then coded according to the themes. The following are the identified themes: i) standards alignment, ii) target audience and applicability, iii) structure and depth of content, iv) language and accessibility, v) guidance and practical tools, vi) implementation approach, vii) verification and assurance, and viii) stakeholder engagement. Then, interpretations were done on the results obtained to highlight the strengths and weaknesses of the selected guidelines.

## **THE STRENGTHS AND WEAKNESSES OF i-ESGStart and SEDG**

Several key insights on the strengths and weaknesses of i-ESGStart and SEDG were identified through content analysis. This section begins with the shared strengths of both guidelines, followed by the strengths that is unique to each one. It then highlights the weaknesses and limitations observed in both documents.

### **The shared strengths of i-ESGStart and SEDG**

The i-ESGStart and SEDG guidelines share several similarities in strength, making them useful resources for companies looking to adopt and implement ESG practices. Firstly, these guidelines are aligned with recognised national and international ESG-related frameworks and standards to ensure credibility, such as GRI, TCFD and Bursa Malaysia's Listing Requirements. This alignment is crucial because it ensures that businesses using these guidelines adopt globally accepted standard practices, thereby adding value to their ESG initiatives and makes their efforts more credible to stakeholders. Not only it enhances stakeholder trust, but it also supports resilient business operations and long-term value creation (Alliance Bank, 2025). It also provides a clear pathway for companies to move from voluntary practices to more formal ESG reporting when required by regulators or investors.

Another similarity is that both guidelines can be used across various industries. Although the i-ESGStart was developed with manufacturing businesses in mind, its content and structure are general enough to serve as a guide for other sectors. The SEDG, on the other hand, was designed specifically to be industry-neutral from the beginning. This approach may promote a widespread adoption among companies in various sectors. In addition, both guidelines use simple and clear language to ensure accessibility for users at various levels. Clear explanations were given whenever technical terms or jargon is unavoidable. This is important as it makes the guidelines easier to understand and implement, even for companies that may not have prior knowledge or expertise in ESG practices. Surveys conducted by Alliance Bank (2023 & 2025) reported that a lack of internal competencies and knowledge on ESG as one of the top challenges faced by SMEs in incorporating ESG into their operations. By using user-friendly wording, these guidelines can help companies that struggles with this issue. Moreover, simple language can also improve communication within companies, allowing employees from different departments to take part in ESG implementation and better understand its goals.

Another shared strength of i-ESGStart and SEDG are that they were designed for SMEs. This is because generally, smaller businesses often lack the resources and expertise needed for complex ESG initiatives. By targeting SMEs, the government can facilitate these companies in taking their first steps toward sustainability in a manageable way. This effort is highly commendable, as Malaysia is the first country in the world to provide guidelines on ESG disclosures for SMEs (BusinessToday, 2023). Additionally, these guidelines are not a regulatory requirement and do not impose a fixed adoption timeline. So, this allows companies to adopt the disclosures voluntarily and progress at their own pace and readiness without the pressure of legal obligations. This makes it easier for companies, particularly smaller ones, to explore ESG practices without having to worry about penalties or unrealistic timelines. Since it is voluntary and has no adoption timeline, companies will be able to focus on their internal

capacity-building before progressing to a more advanced ESG reporting or audits. This flexibility is in line with the phased approach emphasized by both guidelines where companies are encouraged to start small and gradually improve their ESG implementations over time. In i-ESGStart, the disclosures are organized by year (1<sup>st</sup> Year, 2<sup>nd</sup> Year and 3<sup>rd</sup> Year), while SEDG categorizes them into levels – Basic, Intermediate and Advanced. This structure helps businesses progress step by step, making ESG adoption less overwhelming and more achievable. While companies progress in phases, they can also improve their data management skills and decision-making processes related to ESG. Thus, this phased approach ensures long-term progress rather than short-term compliance.

To support companies further, both i-ESGStart and SEDG provide step-by-step guidance, practical templates and examples. While both offer similar tools, the level of detail differs. SEDG is simpler and more user-friendly, making it particularly suitable for SMEs that are new to ESG practices. On the other hand, i-ESGStart provides more detailed explanation, which can benefit companies that require a deeper understanding of ESG processes. These differences in presentation also give the companies the flexibility to choose a guideline that suits their operational maturity and familiarity with ESG.

Finally, both guidelines aim to enhance transparency in ESG practices, helping companies communicate their sustainability efforts clearly to stakeholders such as investors, customers and regulators. Among SMEs that have adopted ESG practices, many also view increased transparency as one of the key benefits (Alliance Bank, 2025). This transparency build trust and demonstrates a company's commitment to sustainability, which can improve its reputation and competitiveness in the market (Tsang et al., 2023). In the long run, consistent transparency can also attract ESG-conscious investors and open up business opportunities (Zheng, 2024), particularly in global value chains that require sustainable sourcing. In addition to these shared strengths, it is also important to highlight the unique features of each guideline. The following section will explore the strengths that are unique to each guideline.

### ***The Power of i-ESGStart***

As previously stated, the i-ESG Framework is marketed as a resource specifically for the manufacturing sector. However, the way its guideline – i-ESGStart – is structured and presented makes its content broad and flexible enough to benefit organizations across various industries. The guide's recommendations and examples are industry-neutral, making it suitable for any company interested in adopting ESG practices. This flexibility ensures that businesses, regardless of their sector, can use the guide to start or enhance their ESG journey.

Other strengths of the i-ESGStart guideline are its comprehensive coverage. The guide provides detailed instructions for each disclosure, including step-by-step guidance, examples and templates. These resources make it easier for companies to track and report their ESG practices effectively. For example, the guide includes templates and forms that companies can use to collect and document data, simplifying the reporting cases. This level of detail ensures that companies have everything they need to implement ESG practices without confusion. Based on a survey conducted by Alliance Bank (2025) involving four business sectors – services, manufacturing, construction, and agriculture – respondents indicated that training is one of the key forms of support they need to continue their ESG journey. To meet this need, and in response to the growing awareness of ESG among SMEs in Malaysia (Alliance Bank, 2025), the government and private training providers are likely to increase the availability of ESG-related training programmes. Therefore, for training providers, this guideline can serve as a valuable teaching resource. Its level of detail makes it especially suitable for training purposes. It also can be beneficial for individuals or organisations that are new to ESG and face financial limitations, as the guide offers clear explanations of the processes, enabling self-learning. The information in the guide is presented clearly and easy to understand, making it accessible for beginners. For those new to

ESG, this guide can serve as a comprehensive resource to build foundational knowledge and confidence in implementing sustainable practices.

Another unique strength of the guideline is its trend-based disclosure. It emphasizes the importance of using trend analysis to track progress and plan long-term ESG goals. This approach helps companies move beyond simple compliance and encourages them to adopt a more strategic perspective on sustainability. By understanding their progress over time, companies can assess the effectiveness of the ESG initiatives they have implemented, make necessary adjustments to their strategies, and ultimately make informed decisions and set realistic goals that align with their sustainability objectives.

Finally, the guide includes examples of mitigation measures and recommendation for some of the disclosures' topics. These examples offer practical solutions that companies can apply to improve their performance in various ESG areas. For instance, companies can learn how to reduce their energy consumption or how to enhance employee's engagement in the company. This makes the i-ESGStart not only a reporting tool but also a valuable resource for driving improvement and fostering long-term sustainability. With all these strengths, particularly its depth, i-ESGStart can serve as a comprehensive resource for businesses aiming to integrate sustainability into their operations, as it supports both ESG compliance and internal growth.

### ***The Advantage of SEDG***

The SEDG is a user-friendly tool designed to help SMEs in Malaysia with ESG adoption and reporting. One of its key strengths is its availability in three languages – English, Bahasa Melayu and Chinese. This ensures that businesses across Malaysia, regardless of language preference can easily understand and use the guide. By making the guide accessible in multiple languages, it reflects inclusivity and ensures that SMEs from diverse backgrounds can take their first steps in ESG practices without facing language barriers (Heinisch, 2021). Another advantage of the SEDG is that its disclosures are industry-neutral, which means the guide is applicable to all sectors. This flexibility allows SMEs from any industry to adopt ESG practices without worrying about specific restrictions. However, to meet the needs of key industries in Malaysia, CMM has also developed SEDG Sector Guides for five major sectors, i.e., Agriculture, Construction and Real Estate, Energy, Manufacturing and Transport and Logistics. These sector-specific guides provide tailored guidance for companies operating in industries with unique ESG challenges, making it easier for them to focus on the most relevant areas of sustainability for their sector.

One of the biggest challenges for SMEs is the complexity of existing ESG frameworks and standards. Many of these frameworks are detailed and difficult to implement for small businesses that may lack resources or expertise (Salin et al., 2023, Alliance Bank, 2025). To address this issue, CMM developed the SEDG to be simple and easy-to-adopt. The guide is designed specifically for SMEs, recognizing their limitations and providing a clear and straightforward approach to ESG. By focusing on simplicity, the SEDG encourages SMEs to begin their ESG journey without feeling overwhelmed. This can lead to more companies engaging in ESG practices and eventually producing high quality sustainability reports. The simplicity of the guide is not only practical but also serves as a motivating factor for companies that are hesitant to start due to a lack of knowledge or confidence in their ability to comply with complex ESG Standards.

### **The Weaknesses of i-ESGStart and SEDG**

Despite their many strengths, i-ESGStart and SEDG also have a number of weaknesses. Even though the shortcomings are not critical, they may impact users' understanding, implementation and reporting of ESG practices.

### ***The Weak-point of i-ESGStart***

There are some weaknesses that can be identified in i-ESGStart. The most significant one is its length. At 226 pages, it is significantly longer than SEDG, which only has 69 pages. While the detailed information is useful, it can be overwhelming for companies that are just starting with ESG practices. It might be difficult for SMEs to navigate through the guide, especially if the companies lack experience or resources. For beginners, the amount of detail in this guide might make it feel more like a textbook than a practical guide. This could discourage some companies from using it effectively.

Another issue with i-ESGStart is that it is only available in one language. Without a translated version, some companies may find it hard to fully understand and apply the guidelines. If the guide were provided in multiple languages commonly used by Malaysians, it could make it more accessible and widely used. Not only that, the guide also does not list Governance Structure as one of the topics to be disclosed, unlike SEDG, which includes it as a key area. Although i-ESGStart discusses Governance Structure in Chapter 2 of this guide, it is not part of the formal disclosure topics in later chapters. This may cause users to overlook it, especially if they rely only on the disclosure chapters when preparing their ESG reports.

Lastly, i-ESGStart does not place enough emphasis on verification and assurance of ESG disclosures. To enhance the credibility, the ESG disclosures must be verified by third parties or internal audits. However, the guide provides limited guidance on how to approach this process or why it is necessary. SMEs might miss the opportunity to make their ESG reports more reliable without clear instructions on verification.

### ***SEDG and its shortcomings***

Similarly to i-ESGStart, this guide also has weaknesses in emphasizing on verification and assurance processes. While it provides guidance on disclosures, it does not highlight how companies can validate their ESG data to build credibility with stakeholders. Other weaknesses of SEDG are that it provided limited guidance for complex topics, particularly emissions. SEDG includes disclosures on Scope 1, 2, and 3 emissions, but it does not explain how to calculate them. Instead, the guide points companies to external resources like the GHG Protocol for detailed methodologies. This approach might be difficult for SMEs that lack technical expertise or access to the necessary tools and support. Without clear instructions, SMEs may struggle to report accurately on these critical aspects of ESG. In contrast, unlike SEDG, users of i-ESGStart do not need to refer to external resources because the guide provides detailed instructions on how to disclose certain information.

Finally, the guide provides minimal support for stakeholder engagement. At the start of the guide, stakeholders are mentioned as data requesters but there is no practical guidance on how SMEs can engage with them effectively. For example, the guide does not include tools or templates for conducting stakeholder surveys, gathering feedback, or collaborating with stakeholders. This leaves SMEs without clear steps to involve their stakeholders in the ESG reporting process, which is an important part of building transparency and trust.

## **CONCLUSION**

Although there are some weaknesses in the i-ESGStart and SEDG guidelines, they also have many strengths that make them effective tools for ESG adoption. Their industry-neutral approach, focus on SMEs, voluntary nature, flexibility, phased implementation, and the alignment with established frameworks all contribute to their ability to help businesses adopt ESG practices more effectively and

at a pace that suits their capabilities. In addition, the use of user-friendly language and availability in multiple languages enhance accessibility by reducing language barriers, making the guidelines more inclusive and easier for a wider range of users to understand and apply. Together, the two guidelines complement each other by offering practical pathway for companies at different stages of their ESG journey. Companies that are just starting their ESG journey can begin with SEDG to avoid feeling overwhelmed or discouraged, as it is presented in a very simple way, making it easier for companies to track and report ESG data. Once they are ready to explore more, they can refer to the i-ESGStart for detailed instructions on implementing ESG practices and preparing their sustainability reports.

The comprehensive guidance provided by i-ESGStart, developed by MITI, and the simplified approach of SEDG, developed by CMM, demonstrate the important roles of government-linked agencies play in enhancing ESG adoption in Malaysia. Their efforts ensure that businesses, regardless of size or maturity have access to the necessary resources to start or strengthen their ESG journey while preparing them to meet global ESG requirements.

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