

Towards Sustainable Small and Medium Enterprises (SMEs): Awareness and Overcoming Challenges

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ABSTRACT

This study evaluates sustainability awareness among Malaysian small and medium enterprises (SMEs) and identifies factors and challenges influencing sustainability practices. It involves a descriptive analysis of 200 SME profiles, validated through a focus group discussion (FGD) with authorities. Findings reveal that most respondents are privately owned, have fewer than 50 employees, and operate in trading and services. Sustainability awareness is moderate, requiring improvement for environmental, social, and governance (ESG) goals. Challenges include limited knowledge of environmental regulations, difficulties in community engagement, and resource constraints. Cross-tabulation shows that private ownership, smaller size, Penang location, and trading sector involvement correlate with better ESG performance. Surprisingly, businesses established a decade ago exhibit stronger ESG performance, warranting further study. Thematic analysis highlights diverse sustainability engagement approaches, such as awareness-raising, reporting, enforcement, and seeking recognition. Experts stress the need to educate SME owners on sustainability and advocate for government and financial support. Policymakers and support organizations should assist SMEs in overcoming challenges and fostering sustainable practices.

Keywords: Sustainability; challenge; environment, social, governance (ESG); Malaysia; small and medium enterprise (SMEs)

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INTRODUCTION

The Sustainable Development Goals (SDGs) are the universal agenda for a better sustainability future. The SDGs comprise 17 goals formulated by the United Nations (UN) at the UN General Assembly in September 2015 (United Nations, 2015). In Malaysia, the sustainability agenda is crucial for improving environmental, social, and governance (ESG) issues. As an initiative, Bursa Malaysia had launched several strategic plans, including the Strategic Roadmap 2021–2023, to enhance sustainability implementation. As part of this initiative, Bursa Malaysia requires all publicly listed companies to report their sustainability activities in the company's annual report. A reporting guide is available to assist and standardize sustainability disclosure in line with the listing requirements of Bursa Malaysia (Bursa Malaysia, 2021).

Despite these efforts, awareness of the sustainability agenda among Small and Medium Enterprises (SMEs) in Malaysia remains limited. According to Datuk Seri Mustapa Mohamed, the then Minister in the Prime Minister's Department (Economy), approximately 1.2 million SMEs in Malaysia were unaware of the sustainability agenda adopted by the country, and sustainability practices are perceived as increasing costs for them (Bernama, 2022). Additionally, Tan Sri Abdul Wahid Omar, the Non-Executive Chairman of Bursa Malaysia, identified that a lack of ESG enforcement has led to failure of some SMEs to participate in the global supply chain for sustainable products, making it difficult for them to sell their products and grow in the future (Bernama, 2022).

Moreover, governance issues have become a serious concern in Malaysia. The former Minister of Human Resources, Datuk M. Saravanan, stated that the country's image has been damaged due to poor management of foreign workers and non-compliance with the Minimum Standards for Housing, Accommodation, and Employee Facilities Act (Act 446) by some employers (Fadli & Sibutar-butur, 2022). Lee and Choong (2019) highlighted the issue of employment discrimination in Malaysia, particularly in terms of job quality, employment opportunities, and wages.

In achieving the sustainability agenda, environmental goals must be addressed. The extent to which individuals and organizations are concerned

with the state of the environment in Malaysia is directly related to the severity of the country's environmental problems. Rahman et al., (2016) highlighted that businesses that merely emphasized on profit generation can lead to serious environmental problems that endanger society and the planet as a whole. Thus, entrepreneurs should consider integrating sustainability in their business operations to ensure a better future for the next generations.

The implementation of sustainability must not just be limited to large companies but should be more widespread, including SMEs. The Chairman of the Malaysian Institute of Corporate Governance (MICG) emphasized that involving all companies, regardless of size and market capitalization, is critical, particularly given the economic difficulties that will affect all business categories (Business Today, 2021). Besides, SMEs have significant potential for development and contribute substantially to economic and social well-being by creating jobs and promoting economic growth. As shown in Figure 1, SMEs consistently contributed over 35% of Malaysia's gross domestic product (GDP) from 2015 to 2020 (Department of Statistics Malaysia, 2021). Therefore, it is essential for SMEs to take part in Malaysia's 2030 sustainable development agenda.

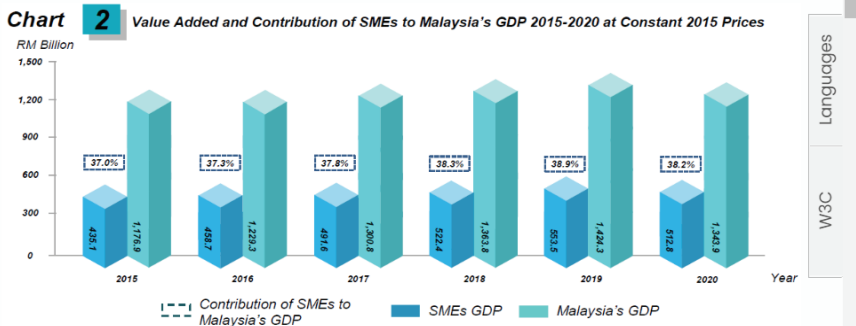


Figure 1: Contribution of Small and Medium Enterprises to Malaysia's Gross Domestic Product

Source: Department of Statistics Malaysia (2021)

Therefore, this study examined sustainability practices among SMEs by focusing on three scopes, namely: (i) awareness of sustainability among SMEs; (ii) the challenges faced by SME entrepreneurs in implementing sustainability; and (iii) the factors that contributed to sustainability practices among SMEs in the states of Kedah, Perlis, and Penang. The findings from

this study can enhance sustainability practices among SMEs and ensure that the SME industry remains competitive. The SME sustainability agenda is consistent with the National Recovery Plan (NRP), which was issued to help the country exit from the COVID-19 crisis and help SME entrepreneurs who were adversely affected by the Malaysia movement control order (MCO).

Overview of Malaysia's Current Sustainability Initiatives

In line with the goals of the 2030 sustainability agenda, the Malaysian government has taken steps to introduce several rules and guidelines to encourage the implementation of sustainability among businesses (Bank Negara Malaysia, 2022). Four main initiatives taken are as follows:

1. ACCA Malaysia Sdn. Bhd. launched the ACCA Malaysia Environmental and Social Reporting Award (MESRA) in 2002 to recognise companies that make corporate sustainability reports.
2. Bursa Malaysia launched the Corporate Social Reporting Framework in 2007 as a guideline for publicly listed companies that wish to implement corporate sustainability reporting. Within the guidelines, publicly listed companies in Malaysia need to disclose the implementation of sustainability in the company's annual report, which includes four dimensions: society, environment, workplace, and market.
3. In October 2015, Bursa Malaysia launched a new corporate sustainability framework that contains amendments to the existing public listing requirements and provides sustainability guidelines for publicly listed companies in Malaysia. The goal of the new corporate sustainability framework was to improve companies' reporting on corporate sustainability.
4. Bursa Malaysia launched the FTSE4Good Bursa Malaysia Index in December 2016 and the FTSE4Good Bursa Malaysia Shariah (F4GBMS) Index in July 2021. One of the purposes of launching this index was to provide exposure and encourage publicly listed companies to implement sustainability.

In order to increase the ability of SMEs to be more competitive, the government had expanded access to financing for entrepreneurs through increased allocations. Recently, Bank Negara Malaysia (BNM) introduced two fund facilities under the 2022 budget, namely the Business Recapitalization Facility and the Low Carbon Transition Facility (LCTF), each amounting to RM1 billion, to assist SMEs towards strengthening their capital structure and to support green financing (Bank Negara Malaysia, 2022) .

In addition, various entrepreneurship development programs covering aspects such as financing, research and development (R&D), training and capacity building, infrastructure, technology transfer, market access, social entrepreneurship, and internationalization, had been implemented in Malaysia. These efforts had been strengthened with the introduction of the country's first entrepreneurship policy, which is National Entrepreneurship Policy (NEP) 2030. NEP 2030 acts as a catalyst for Malaysia's achievements, i.e., as a country that continues to develop sustainably through three main elements, namely: (i) even growth: a progressive and structured economy driven by innovation and science; (ii) sustainability: meeting current needs without affecting future generations; and (iii) inclusiveness: fair and inclusive economic distribution at every level of the value chain, regardless of class, race, or geography (Othman et al., 2022).

LITERATURE REVIEW

SMEs play a vital role in economic growth and development. Sustainable practices are essential for their growth and success. However, the adoption of sustainable practices by SMEs is more challenging and still limited. Therefore, this literature review explores the previous studies on ESG sustainability among SMEs, focusing on three scopes, namely, awareness, challenges, and factors towards sustainability integration among business entrepreneurs.

Awareness of Sustainability Among Small and Medium Enterprises

The sustainability awareness of ESG issues is crucial for SMEs to adopt sustainable practices. Baharudin (2021) found that in Malaysia, SMEs had limited awareness of ESG sustainability practices, and most SMEs were more concerned with financial performance than ESG sustainability. Similarly, Fung et al. (2021) found that SMEs in Malaysia lacked awareness and knowledge of sustainable practices, especially in the areas of energy efficiency and waste reduction.

Awareness of ESG sustainability among SMEs had been identified as a crucial factor in driving the implementation of sustainable practices among these businesses (Prasanna et al., 2019). Several studies have examined the level of ESG awareness among SMEs in various countries, including in Malaysia. Moorthy et al. (2012), in their study on SMEs in Malaysia, found that the majority of SMEs surveyed had a low level of awareness of ESG sustainability. This lack of awareness was attributed to a lack of resources and knowledge on sustainable practices. Similarly, Fadli (2022) study on SMEs in Malaysia, had found that many SMEs lack awareness of ESG practices and their potential benefits.

However, there have also been studies that have found higher levels of ESG awareness among SMEs. For example, Hahn et al. (2015), who studied German SMEs, found that the majority of SMEs surveyed had a good understanding of ESG practices and are motivated to implement sustainable practices in their businesses. To improve awareness of ESG sustainability among SMEs, various initiatives had been implemented, such as government policies, awareness-raising campaigns, and training programs (Sulaiman et al., 2023). The Malaysian government had also taken steps to promote sustainable practices among SMEs, such as the implementation of the SDGs and the introduction of various financing schemes and incentives for sustainable businesses (Mohammed et al., 2023).

Challenges Faced by Small and Medium Enterprises in Implementing Sustainability

Several factors influence the implementation of ESG sustainability among SMEs. One of the main challenges faced by SMEs in implementing sustainability practices was the lack of financial resources (Alhadhrami & Nobanee, 2019; Hassan & Yahya, 2020; Reddy et al., 2018). According to Alhadhrami and Nobanee (2019) SMEs often lacked the financial resources to invest in sustainable practices, as they may have limited budgets and faced competition from larger companies. In addition, this study also found that SMEs may perceive sustainability investments as a financial burden rather than an opportunity for business growth.

Another challenge faced by SMEs is the lack of expertise and knowledge on sustainability issues (Gamage et al., 2020; Løkke & Madsen, 2022). According to Gamage et al. (2020) SMEs may not have the necessary knowledge and expertise to implement sustainable practices, as they may not have dedicated sustainability departments or access to external sustainability consultants. Parrish and Tilley (2016) also found that SMEs may have limited awareness of sustainability issues and may not understand the potential benefits of sustainability practices.

The lack of stakeholder support is another challenge faced by SMEs in implementing sustainability practices (Bruce-iri, 2022; Jayasundara et al., 2019; Zutshi et al., 2021). According to De Marchi et al. (2017), SMEs may face resistance from stakeholders, such as employees or customers, who may not be willing to change their habits or practices to be aligned with sustainable initiatives. Jayasundara et al. (2019) also found that SMEs may perceive a lack of demand for sustainable products or services from customers, which may deter them from investing in sustainable practices.

Regulatory barriers can also pose challenges to SMEs in implementing sustainability practices (Peng et al., 2016; Jayasundara et al., 2019). According to Peng et al. (2018) SMEs may face challenges in complying with sustainability regulations, such as reporting requirements or environmental standards. Alhadhrami and Nobanee (2019) also found that SMEs may perceive sustainability regulations as burdensome and may lack the resources to comply with them.

In addition, Ali et al. (2021) found that corporate social responsibility (CSR), environmental concerns, and organizational culture, significantly influence ESG implementation among SMEs in Malaysia. Similarly, Mohammad et al. (2022) identified that internal factors, such as top management support, employee awareness, and green innovation, are the significant drivers of ESG implementation among SMEs. Therefore, addressing these factors is crucial for SMEs to implement ESG sustainability successfully.

Factors of Sustainability Implementation Among Small and Medium Enterprises

The factors that influence the implementation of ESG practices among SMEs are varied and complex. Several studies have identified different factors that could impact ESG implementation, such as internal factors, like organizational culture, leadership, and resources; and external factors, like market pressure, regulatory requirements, and stakeholder pressure. Mat Yusoh et al. (2021) found that the most significant factors influencing ESG adoption among SMEs in Malaysia were internal factors, such as awareness, leadership support, and organizational culture. They also found that external factors, such as regulatory requirements and market pressure, had a moderate impact on ESG adoption among SMEs.

Hahn, Kühnen, and Blome's (2015) study in Germany found that SMEs will be more likely to adopt ESG practices when they perceived benefits from doing so, such as improved reputation and access to new markets. They also found that stakeholder pressure, particularly from customers and suppliers, played a significant role in motivating SMEs to implement ESG practices. Furthermore, Salehi et al. (2022) found that the level of ESG implementation among SMEs is positively correlated with the level of social capital within the organization, and that ESG implementation is positively influenced by the involvement of external stakeholders, such as customers, suppliers, and regulators.

The Stakeholder Theory

The Stakeholder Theory posits that organizations should consider the interests and expectations of all relevant stakeholders in their decision-making processes (Parmar et al., 2010). The theory acknowledges that businesses are accountable not only to shareholders but also to a broader range of stakeholders who can impact or be impacted by the organization's actions. Stakeholders encompass individuals or groups with a stake or interest in the organization. Additionally, the theory assesses the extent to which a stakeholder group possesses power, legitimacy, and urgency. The Theory has been widely employed to address ethical considerations and sustainability practices within organizations, emphasizing the importance of responsible and ethical conduct toward all stakeholders, including employees, customers, communities, and the environment (Gholami et al., 2022; Sen & Cowley, 2013).

Consequently, this study used the Stakeholder Theory through highlighting the crucial role of various stakeholders, including private owners, employees, communities, and regulatory bodies, in improving awareness and overcome the challenges of sustainability practices among Malaysian SMEs. In this context, ensuring fair equality of opportunity for SME-level companies is crucial, even though they are not listed on Bursa Malaysia, as they also contribute to Malaysia's GDP. This theory is relevant because we cannot solely focus on listed companies; we must assist SMEs in their collective development. This becomes more pertinent as many banks and financial institutions in Malaysia have begun implementing ESG checklists in loan applications.

METHODOLOGY

This study employed a mixed-methods approach, incorporating both quantitative and qualitative data collection techniques, to enhance the comprehensive understanding of the awareness and challenges associated with implementing ESG sustainability among SMEs in northern states of Malaysia. The questionnaire was distributed to 500 SMEs. However, only 200 questionnaires were returned and analysed. Data from the questionnaires were analysed using the SPSS software, which enabled the identification of

trends and patterns in the data. Respondents were selected based on their involvement in several SME categories, which encompassed private limited companies, partnerships, and sole proprietorships. The data distribution focused on the northern region, specifically the states of Kedah, Penang, and Perlis.

In order to achieve the third objective of this study which was to investigate the factors that contributed to sustainability practices among SMEs, this study adopted a qualitative approach employing focus group discussions (FGDs). This approach allowed a deeper understanding of the issues related to sustainable practices among SMEs. The FGDs adhered to the four major steps outlined by Morgan et al. (1998) i.e., research design, data collection, analysis, and reporting of results. With the consent of the respondents, the discussions were audio-recorded for subsequent transcription.

The study applied a deductive approach using thematic analysis to examine the data outcomes. Initially, the audio recordings of the FGDs were transcribed. Subsequently, the transcripts were independently reviewed to obtain an overall understanding of the discussions' key points and themes. In addition, 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 (Tongco, 2007). The FGD respondents consisted of two academicians, four bank staff at the executive officer level, and one Director of the SME Corporation. 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

Overall, the use of a mixed-methods approach in this study provided a more comprehensive understanding of the issues related to ESG implementation among SMEs in Malaysia. The combination of quantitative data from the questionnaire and qualitative insights from the FGDs with experts provided a deeper understanding of the issues addressed.

DATA ANALYSIS

Descriptive Analysis

Descriptive analysis was performed to obtain information related to the respondents' business profile. From the perspective of the type of business, out of 200 respondents, 67% were enterprises, 32% were private limited, and only 1% percent was limited types (Refer to Table 1). In terms of business ownership, 66% were private ownerships, with joint and family ownerships at 13% and 21%, respectively. More than three-quarters of businesses had been established for less than 20 years and 97% of businesses had less than 50 employees. In terms of the business sector, the majority (64.5%) were in the trading/services sector, followed by the manufacturing sector (23%), and the construction sector (7%). There was a balance in the respondents' business location among Kedah (34.5%), Perlis (34%), and Penang (31.5%).

Table 1: Business Profile of Respondents (N = 200)

Profile	Frequency	%
<i>Type of business</i>		
Enterprise	134	67.0
Private limited	64	32.0
Limited	2	1.0
<i>Business ownership</i>		
Private	132	66.0
Partnership	26	13.0
Family	42	21.0
<i>Establishment period (years)</i>		
0 – 5	31	15.5
6 – 10	48	24.0
11 – 20	90	45.0
21 – 30	23	11.5
> 31	8	4.0
<i>Number of employees</i>		
1 – 5	79	39.5
6 – 15	96	48.0
16 – 25	10	5.0
26 – 50	9	4.5
> 50	6	3.0

<i>Ethnic</i>		
Malay	139	69.5
Chinese	55	27.5
Indian	4	2
<i>State</i>		
Kedah	69	34.5
Perlis	68	34
Penang	63	31.5
<i>Educational Background</i>		
PMR	3	1.5
SPM	81	40.5
STPM	12	6
Diploma	56	28
Bachelor's	43	21.5
Master's	3	1.5
PhD	2	1

Awareness of sustainability among Small and Medium Enterprises (SMEs)

Tables 2, 3, and 4 represent the awareness of respondents on environmental sustainability, social sustainability, and governance sustainability, respectively. Based on the results, the awareness of environmental sustainability, as shown in Table 2, was considered good, where on average, 42.25% respondents selected scale 5. This data was evaluated in-depth based on several key factors, including environmental sensitivity, environmental awareness, and the variety of strategies used. Most SMEs were well aware of the waste management, energy saving, and recycling programs. About 61% SMEs operating in the Northern area had implemented an environmentally friendly business.

The details of the scope of the questions and responses to the questionnaire are as follows: business does not pollute the environment: 61% chose scale 5 and 19% chose scale 4; awareness of the initiatives: the majority chose scale 4 (41%) compared to scale 5 (23%); environmental policy: the majority chose scale 4 (41%) and scale 5 (23%); the environmental program: the majority chose scale 4 (42%) and scale 5 (27%); the sustainability strategy: scale 4 is the highest which is 32% and scale 5 is 26%; waste management: the majority chose scale 4 (39%) and scale 5 (28%); water saving management: the majority chose scale 4 (41%) compared to scale 5

(29%); energy saving management: the majority chose scale 4 (41%) and scale 5 (35%); and finally, pollution management: the majority chose scale 4 (48%) and scale 5 (33%).

Table 2: Awareness of Environmental Sustainability Among Small and Medium Enterprises (SMEs)

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Environmentally friendly business	4%	4%	14%	19%	61%
Awareness Initiative	5%	11%	22%	41%	23%
Companies have Environmental Policy	4%	9%	30%	41%	17%
Running a Recycling Program	2%	8%	22%	42%	27%
Environmental Program Reporting	4%	10%	27%	39%	21%
Sustainability Strategy	4%	11%	28%	32%	26%
Waste Management	2%	9%	23%	39%	28%
Water Conservation Management	2%	7%	22%	41%	29%
Management of Energy Savings	1%	5%	19%	41%	35%
Pollution Management	1%	5%	15%	48%	33%

As for the awareness of social sustainability as in Table 3, the results of the study generally showed a good level of awareness among entrepreneurs, where the majority chose between Scale 4 and Scale 5. The questions asked were related to the involvement of entrepreneurs and businesses in society, the management of harmony and equality between employers and employees, and an attitude of openness. The details of the questions and the responses were as follows: community support recorded 47.5% for scale 5 and 35% for scale 4; involvement in the community: the majority chose scale 4 (43.4%) and 26% chose scale 5; harmony among employees: the majority chose scale 4 (45.5%) and scale 5 (44.5%); equality of opportunity: the majority chose scale 5 (49.5%) and scale 4 (40%); acceptance of opinions: the majority chose scale 5 (49.5%) and scale 4 (41.5%); the importance to the community: the majority chose scale 4 (49.5%) and scale 5 (39.5%); supply management: the majority chose scale 5 (45.5%) and scale 4 (41%); the specialization of workers: the majority chose scale 5 (46.5%) and scale 4 (41.5%); the health program: the majority chose scale 5 (54%) and scale 4 (37%); and respect for the employees' time: the majority chose scale 5 (57%) and scale 4 (37%).

Table 3: Awareness of Social Sustainability Among Small and Medium Enterprises (SMEs)

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Community Support	1%	2%	15%	35%	48%
Involvement in the Community	1%	6%	25%	44%	26%
Harmony Among Employees	1%	1%	9%	46%	45%
Equality of Opportunity	1%	3%	8%	40%	50%
Acceptance of Opinions	0%	2%	8%	42%	50%
Society's Interest	0%	1%	11%	50%	40%
Supply Management	0%	1%	13%	41%	46%
Employee Specialization	1%	2%	10%	42%	47%
Health Program	1%	3%	10%	33%	54%
Work Hours must be Respected.	1%	1%	5%	37%	57%

The sustainability of governance (refer to Table 4) also showed a positive awareness among entrepreneurs. However, based on feedback related to this implementation, it was still at a moderate level, where the majority chose scale 4. The scope of the questions asked revolved around the organization’s internal management of environmental governance, such as the implementation of ethical codes, activities, and reporting. The details of the survey questions were as follows: Clear planning: the majority chose scale 4 (43%) and scale 5 (36%), clear employee and employer relationships: the majority chose scale 4 (53%) and scale 5 (26.5%); a clear organizational chart: the majority chose scale 5 (42.5%) and scale 4 (37%); management role: the majority chose scale 5 (76%) and scale 4 (69%); code of ethics: the majority chose scale 4 (39.2%) and scale 5 (29.6%); monitoring of the ethical code: the majority chose scale 4 (41%) and scale 5 (30.5%); business activity: the majority chose scale 4 (47%) and scale 5 (35%); celebrating the proposal: the majority chose scale 4 (46%) and scale 5 (35%); and the workplace environment: the majority chose scale 5 (42.5%) and scale 4 (39.5%).

Overall, the results showed that the level of awareness of SMEs of ESG issues was considerably good. However, according to Salsabila et al. (2019), awareness had three contexts, i.e., emotion, attitude and practice of sustainability awareness. Although there was a good awareness of sustainability among SMEs, the level of sustainability implementation was

still minimal. Several efforts need to be taken to ensure that sustainability can be implemented in tandem with their level of awareness.

Table 4: Awareness of Governance Sustainability Among Small and Medium Enterprises (SMEs)

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Clear Planning	0%	1%	20%	43%	36%
A Clear Employee-Employer Relationship	0%	3%	18%	53%	27%
A Clear Organizational Chart	1%	3%	17%	37%	43%
Management Role	1%	5%	22%	35%	38%
Code of Ethics	2%	7%	23%	39%	30%
Code of Ethics Monitoring	1%	5%	23%	41%	31%
Business Activity Report	1%	4%	14%	47%	35%
Celebrate the Proposal	1%	3%	16%	46%	35%
Workplace Stress	0%	2%	16%	40%	43%

Cross-Tabulation Analysis on Sustainability Awareness

This section shows the results of a cross-tabulation analysis to investigate the relationship between sustainability awareness and SME characteristics. The analysis displays the percentage of environmental, social, and governance awareness by five SME characteristics: business type (Table 5); business categories (Table 6); state (Table 7); sector (Table 8); and number of years established (Table 9).

Table 5 shows the percentage of businesses that had scored well in ESG factors, categorized by their business type. It shows that businesses with private ownership have performed the best in all ESG factors, with scores of 66.38% for the environmental, 65.65% for the social, and 65.49% for the governance factors. This result is consistent with previous studies that have shown that private ownership is positively associated with better ESG performance (Cheng et al., 2021; Barko et al., 2022).

Table 6 shows the percentage of businesses that had scored well in ESG factors, categorized by their size and category. It indicated that small businesses had performed the best in ESG factors, with scores of 77.40% for the environmental, 76.23% for the social, and 75.73% for the governance

factors. This finding is consistent with previous studies that have shown that small businesses tend to have better ESG performance due to their closer relationships with local communities and their greater focus on sustainability (Grewal et al., 2021; Kim & Lee, 2022).

Table 7 shows the percentage of businesses that had scored well in ESG factors, categorized by their state. The data revealed that businesses in Penang had performed the best in ESG factors, with scores of 35.03% for the environmental, 34.26% for the social, and 33.99% for the governance factors. This result could be due to the fact that Penang had implemented various initiatives to promote sustainable development, such as the Cleaner, Greener Penang initiative and the Penang Transport Master Plan (Jusoh et al., 2023)

As for Table 8, the percentage of businesses that had scored well in ESG factors, categorized by their sector. The data indicated that businesses in the trading sector had performed the best in ESG factors, with scores of 64.02% for the environmental, 64.36% for the social, and 65.15% for the governance factors. This finding is consistent with previous studies that have shown that trading companies tend to have better ESG performance due to their low environmental impact and strong governance structures (Bajwa et al., 2021; Eliwa et al., 2021).

The percentage of businesses that had scored well in ESG factors, categorized by their years of establishment. The data indicated that businesses established for 10 years had performed the best in ESG factors, with scores of 28.36% for the governance, 28.52% for the environmental, and 27.93% for the social factors. This result was surprising since one would expect that newer businesses would have better ESG performance due to their greater focus on sustainability. However, this finding could be due to the fact that businesses established for 10 years have had enough time to develop their ESG policies and practices (Hendiani et al., 2022).

Table 5: Distribution of Sustainability Awareness by Business Type

Variables	Environmental	Social	Governance
Sole proprietorship	66.38%	65.65%	65.49%
Family	20.18%	20.94%	20.41%
Partnership	12.94%	12.95%	13.61%
Others	0.49%	0.47%	0.49%
Grand total	100.00%	100.00%	100.00%

Table 6: Distribution of Sustainability Awareness by Business Category

Variables	Environmental	Social	Governance
Micro-	22.73%	22.17%	20.94%
Small	75.73%	76.23%	77.40%
Medium	1.54%	1.59%	1.66%
Grand Total	100.00%	100.00%	100.00%

Table 7: Distribution of Sustainability Awareness by State

Variables	Environmental	Social	Governance
Penang	35.03%	34.26%	33.99%
Kedah	33.85%	34.07%	33.42%
Perlis	31.12%	31.67%	32.58%
Grand Total	100.00%	100.00%	100.00%

Table 8: Distribution of Sustainability Awareness by Sector

Variables	Environmental	Social	Governance
Trading	65.15%	64.36%	64.02%
Manufacturing	22.73%	23.20%	23.55%
Construction	6.22%	6.60%	6.56%
Agriculture	3.07%	3.00%	3.00%
Services	0.84%	0.98%	0.94%
Others	2.00%	1.87%	1.93%
Grand Total	100.00%	100.00%	100.00%

Table 9: Distribution of Sustainability Awareness by Number of Years Established

Variables	Environmental	Social	Governance
1 - 5 years	17.91%	19.64%	19.78%
6 - 10 years	28.52%	27.93%	28.36%
11- 15 years	27.76%	26.61%	26.60%
16 – 20 years	10.47%	10.73%	10.52%
> 20 years	15.34%	15.10%	14.74%
Grand Total	100.00%	100.00%	100.00%

The Challenges to Adoption of Sustainability Among Small and Medium Enterprises (SMEs)

This section provides the findings on the challenges or barriers to adopting sustainability in business operations obtained from the questionnaires collected among SMEs in Kedah, Penang, and Perlis, based on three main scopes: environmental, social, and governance factors (See Table 5). Results for the environmental sustainability challenges presented in Table 5 revealed that 48% of the respondents agree (by choosing scales 4 and 5) that environmental laws had nothing to do with business. When asked about information and time for environmental management, more than 70% of respondents agreed that these factors were among the challenges faced by SME entrepreneurs to implement environmental sustainability. Only 30% of SMEs respondents opined that cost of managing the environment was expensive for the company.

From the perspective of the challenges to implementing social sustainability and governance, more than three-quarters of SME owners agreed that they have no time with the community and did not get full support from their top management to do community activities. The majority of the respondents stated that they lack workers for community activities (77%), no expertise in community activities (80%), no resources for community activities (81%), employees are not interested in community activities (82%), and cultural differences (79%) make community activities difficult.

In conclusion, most SMEs had less information regarding environmental care, had no free time to care for the environment, and were not willing to learn about environmental issues. There were still many SMEs that were less aware of the environmental laws that affected their business. This happened due to the lack of knowledge or exposure by the authorities related to environmental laws for SMES. Furthermore, the legal language used in formulating the environmental laws made it difficult for entrepreneurs to understand it. From the perspective of social sustainability and governance, there were still a small number of SMEs that felt that they had constraints in terms of employees and different community cultures that made it difficult for them to carry out community activities.

Table 10: Challenges to Sustainability Adoption Among Small and Medium Enterprises (SMEs)

Items	Not relevant	Natural	Highly relevant
<i>Environmental Sustainability Challenges Among SMEs</i>			
Environmental law not related to my business.	33%	20%	48%
Environmental management is expensive.	71%	25%	5%
No environmental information	5%	23%	72%
No time to take care of the environment.	3%	17%	80%
No time to be aware of environmental issues.	4%	18%	78%
<i>Social Sustainability and Governance Challenges Among SMEs</i>			
No information	4%	12%	84%
No time to take part in social and governance issues	4%	13%	83%
Lack of workers	7%	16%	77%
No expertise available	6%	14%	80%
No support from the company's top management	3%	9%	88%
No allocation provided by the company for social and governance	6%	13%	81%
Company does not provide any related training	7%	14%	79%
Employees not interested	5%	13%	82%
Cultural Differences	6%	15%	79%

Profile of Respondents for the Focus Group Discussion (FGD)

The respondents for FGD consisted of seven representatives. These included two male academicians from Malaysian public university, four bank staff at least at the executive officer level, and one Director of a SME Corporation as presented in Table 11. 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.

Table 11: Profile of Focus Group Discussion's Respondent

No.	Respondents	Position	Institutions	Gender
1.	Academic 1	Senior Lecturer, Public University	Universiti Utara Malaysia	Male
2.	Academic 2	Senior Lecturer, Public University	Universiti Teknologi MARA	Male
3.	Bank officer 1	Assistant Branch Manager,	Credit Guarantee Corporation (CGC)	Female

4.	Bank officer 2	Relationship Manager,	Small and Medium Enterprise (SME) Bank	Male
5.	Bank officer 3	Executive Officer	Maybank Berhad	Female
6.	Bank officer 4	Relationship Manager,	Bank Kerjasama Rakyat Malaysia	Male
7.	SME Corporation representative	Director	Small and Medium Enterprise (SME) Corporation	Female

Analysis of the Focus Group Discussion (FGD)

This section presents the findings of FGDs conducted in Malaysia, focusing on the implementation of ESG practices among entrepreneurs. Through thematic analysis, several key findings emerged. The finding revealed five key themes that may contribute to the integration of sustainability among SMEs. These included awareness and knowledge, reporting and templates, platforms, enforcement and monitoring, and recognition. These findings were aligned with previous studies that had highlighted the lack of awareness, resources, stakeholder support, and environmental legislation, as barriers to sustainability practices in SMEs.

Lack of awareness and knowledge was a significant barrier to the implementation of sustainability practices among SMEs, particularly smaller companies. Many small businesses were unaware of the importance of sustainability and lack understanding of its meaning. They often perceived sustainability as irrelevant compared to larger companies. Increasing awareness and knowledge among SMEs was crucial for promoting sustainability. Suggestions included organizing ESG-related campaigns, such as talks and webinars, and providing external support through government agencies and financial institutions to educate SMEs on sustainability issues. This is in tandem with previous studies that have highlighted the positive relationship between awareness and knowledge and the implementation of sustainability practices in SMEs.

Enforcement and monitoring were significant challenges to the implementation of sustainability practices among SMEs, as observed in various countries. In Malaysia, there was a lack of policies and regulations to promote sustainability in SMEs, with existing policies primarily focused on larger company. FGD respondents emphasized the need for government enforcement, particularly when companies applied for government facilities.

Financial institutions' implementation of ESG screening for SME financing applications had been inconsistent, leading to gaps in sustainability compliance. Stronger enforcement and monitoring were required, including ESG screening for all businesses and a dedicated monitoring agency. Convincing SMEs about the benefits of sustainability practices was crucial, as they often perceived them as additional costs. The government must play a crucial role in driving sustainability practices among SMEs and creating a sustainable ecosystem.

The establishment of an ESG support group platform is crucial for SMEs seeking to integrate sustainability into their operations. This platform would provide SMEs with exposure to sustainability-related issues, connecting entrepreneurs with relevant agencies, cooperatives, and large companies involved in SDG and ESG initiatives. Through advisory services, capacity building, and networking, the platform would facilitate interaction and knowledge sharing among entrepreneurs. Furthermore, the platform can offer necessary tools and support to assist SMEs in effectively adopting and implementing ESG practices. This platform would be particularly valuable during the financing application process, as completing an ESG checklist is often a requirement. By providing SMEs with the necessary resources and guidance, the platform would enhance their preparedness and increase their chances of successful financing applications.

The preparation of sustainability reports by SMEs is crucial for enhancing transparency and promoting responsible practices. It is necessary to encourage SMEs to report their sustainability activities, by providing them with a template and ESG checklist to guide the preparation of their reports. Tailoring the templates and checklists to the size and needs of the SMEs can facilitate their implementation of sustainability practices effectively.

Recognition through rewards and certification is essential to promote the adoption of ESG practices among SMEs. Certification can demonstrate an SME's commitment to sustainability and build trust with stakeholders. Awards and competitions can also recognize SMEs for their contributions to sustainable development, increasing their visibility and credibility. Additionally, recognition in the form of financing and investment opportunities can incentivize SMEs to prioritize ESG practices, as investors and financial institutions prioritize companies with strong ESG performance.

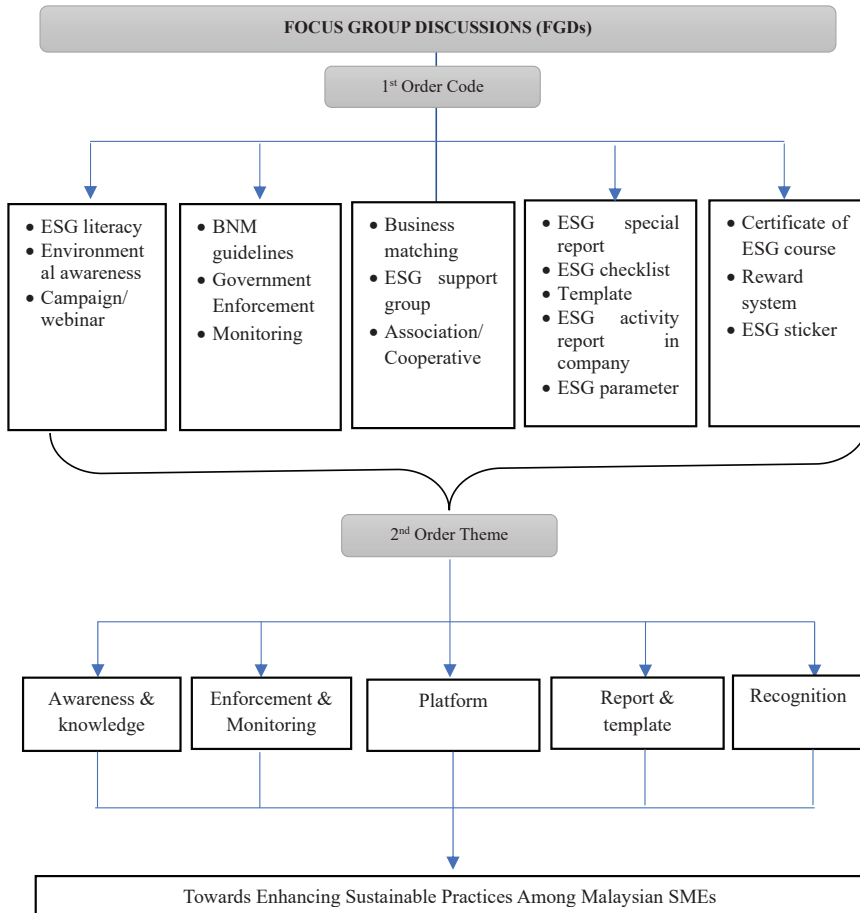


Figure 2: Thematic Analysis of the Focus Group Discussions (FGDs)

The FGD’s also highlighted the significance of raising awareness about recycling, particularly in relation to proper disposal of plastic food waste. This awareness should extend even to night market traders, for whom a basic understanding of recycling will be sufficient. The study recommends that companies organize ESG campaigns at least once a year, regardless of the specific format, such as awareness-raising initiatives or webinars. A notable finding is the lack of ESG awareness among entrepreneurs, indicating a need for enhanced understanding of ESG concepts. To address this, the study suggests that the Malaysian government takes responsibility for disseminating ESG awareness to entrepreneurs.

Moreover, government and the other authority related body should play a role to enforce the ESG integration in SMEs business activities. Relevant authorities should gradually review the implementation of ESG and provide feedback, possibly through sustainability reports. Additionally, the FGDs stressed the necessity for SMEs to prepare specialized reports detailing their ESG practices. Banks and financial institutions can assist by providing checklists and templates for reporting ESG activities. Therefore, the study suggests integrating ESG-related activities into company profiles. It also recommends establishing parameters for all registered organizations to implement ESG practices before receiving funding, grants, or financial assistance.

In terms of training and recognition, the FGDs respondents suggested providing ESG certificates to individuals who successfully complete ESG courses, indicating their companies have undergone relevant training. Additionally, an accreditation process for companies involved in green technologies, accompanied by potential awards or rewards, could incentivize their efforts. For example, distributing ESG stickers to hawkers or night market traders was suggested as a visible indication of their commitment to practicing ESG.

DISCUSSION

The study conducted a descriptive analysis to gather information on the profile of 200 respondents' SMEs. The study's findings highlight the need for more efforts to increase the level of sustainability awareness and understanding among SMEs of environmental laws and regulations, which are among the main challenges to the SMEs in adopting sustainability in their business operations. The finding is consistent with previous research, which has highlighted the need for better dissemination of environmental laws to SMEs and more tailored guidance and support to help them comply with regulations. Another significant challenge identified in the study is related to social sustainability and governance, including the difficulty in carrying out community activities due to constraints, such as lack of resources, expertise, and cultural differences. Several studies have shown that community engagement can enhance the social and environmental performance of SMEs and it is essential to develop strategies that support

and encourage SMEs to engage with their local communities effectively (Jayasundara et al., 2019; Jusoh et al., 2023; Othman et al., 2022). Despite the willingness and capacity of most SMEs to implement sustainability practices, they encounter diverse challenges related to environmental laws and community engagement. Considering these challenges, policymakers and support organisations play a pivotal role in offering targeted assistance to SMEs, aiding them in surmounting obstacles, and fostering a more widespread adoption of sustainable practices within the SME sector. Using ideas from stakeholder theory could make these efforts even better by showing how important it is to involve and think about a wide range of stakeholders, such as communities, support groups, and regulatory bodies, when small businesses try to be more environmentally friendly.

The cross-tabulation analysis presented in the tables provides valuable insights into the ESG performance of businesses across different dimensions. Table 5 highlights the positive association between private ownership and better ESG performance, which is consistent with previous research. Table 6 reveals that small businesses tend to have better ESG performance, which can be attributed to their closer relationships with local communities and greater focus on sustainability (Gamage et al., 2020). Table 7 indicates that businesses in Penang have performed the best in ESG factors, which could be attributed to the state's initiatives to promote sustainable development. Besides, these findings contribute to a richer understanding of how businesses, in their pursuit of sustainability, navigate and respond to the diverse interests and expectations of stakeholders in different contexts.

Table 8 shows that businesses in the trading sector tend to have better ESG performance due to their low environmental impact and strong governance structures. However, the findings in Table 9 are surprising in that businesses established for 10 years have better ESG performance than newer businesses. This result contradicts the expectation that newer businesses would have better ESG performance due to their focus on sustainability. Further research is needed to explore the reasons behind this finding and to determine whether or not it holds across different industries and regions. Overall, the cross-tabulation analysis highlights the importance of considering different dimensions and variables when assessing ESG performance. The findings suggest that ownership, size, location, and sector are important factors that influence ESG performance and should be considered when developing ESG policies and practices.

The thematic analysis highlights that SMEs can engage in sustainability practices through various means. These include enhancing awareness and knowledge, utilizing reporting templates and platforms, implementing enforcement and monitoring mechanisms, and seeking recognition. These findings are consistent with previous research, which has emphasized the challenges faced by SMEs in implementing sustainability due to factors, such as lack of awareness, limited resources, inadequate stakeholder support, and ineffective environmental legislation (Bajwa et al., 2021; Bruce-iri, 2022; Jayasundara et al., 2019; Othman et al., 2022). In addition,

Experts agree that SME owners should have higher awareness on the importance of sustainability for their businesses and future generations. Thus, company owners should take the initiative to organize campaigns, such as talks, seminars, and webinars, to raise awareness among their staff and foster a culture of sustainability within their companies. External support from stakeholders such as government agencies, financial institutions, and related organizations is also crucial towards educating SMEs about sustainability issues. For instance, financial institutions could make it mandatory for SMEs to participate in webinars or training sessions on ESG factors before applying for financing. Furthermore, when entrepreneurs possess knowledge about the significance and benefits of sustainability, their awareness and interest can drive them to integrate ESG practices into their business operations. The experts also suggest that establishing a platform for SMEs to engage with ESG-related agencies would enhance awareness and knowledge of sustainability issues.

Besides, government enforcement and monitoring can play a vital role in encouraging SMEs to comply with sustainability parameters, including ESG checklists. Solutions, such as establishing a monitoring agency and sector-specific checklists, are proposed to strengthen enforcement and monitoring of sustainability practices in SMEs. The FGD respondents also recommend that SMEs be encouraged to report their sustainability activities, particularly waste management, to promote inclusive sustainability practices. Additionally, implementing sustainability reports in SMEs can create funding opportunities from financial institutions (Eliwa et al., 2021). However, the experts emphasize the need for authoritative bodies to provide templates and ESG checklists to guide SMEs in preparing sustainability reports. It is essential to tailor these templates and checklists to different

business levels, such as micro-, small, and medium enterprises, to ensure compatibility with their capabilities. This clearly indicates that stakeholders' support play a roles in encouraging ESG practices among this group.

Considering the early stage of sustainability implementation in Malaysia, the development of an ESG platform offering guidance to SMEs across all sectors can be highly beneficial. Such a platform, bringing together ESG-related agencies and SME entrepreneurs from various sectors, can effectively assist SMEs in integrating sustainability into their businesses. It would enable SME entrepreneurs to communicate and gain insights from each other. Moreover, if each SME reports its sustainability activities on the company profile, the platform can facilitate ESG report preparation among SMEs. Thus, creating an appropriate platform that provides guidance and support, can help SMEs overcome challenges in ESG implementation.

Recognition is identified as a critical factor for successful ESG implementation and adoption in SMEs. ESG certification, awards, and opportunities for financing and investment, can serve as recognition for SMEs that have made efforts to adopt and implement ESG practices. Recognition can act as a motivator for SMEs to sustain their efforts and encourage others to follow suit. Ultimately, providing recognition to SMEs that embrace ESG practices can promote sustainable development and enhance the credibility and visibility of SMEs in the country.

CONCLUSION

The study conducted a descriptive analysis of 200 SMEs to gather information about their sustainability practices. The findings revealed that there is a need for increased awareness and understanding of environmental laws and regulations among SMEs, as this is a significant challenge to their adoption of sustainability in their operations. Additionally, the study identified difficulties in carrying out community activities due to constraints like lack of resources, expertise, and cultural differences. Cross-tabulation analysis indicated that factors such as ownership, size, location, and sector influence the ESG (Environmental, Social, and Governance) performance of businesses. The thematic analysis highlighted that SMEs can engage in sustainability practices through various means, including enhancing

awareness and knowledge, utilizing reporting templates and platforms, implementing enforcement and monitoring mechanisms, and seeking recognition.

The significance of the study lies in shedding light on the challenges faced by SMEs in adopting sustainability practices. It emphasizes the importance of providing tailored support to SMEs to overcome these challenges and increase the uptake of sustainable practices. The findings contribute to the existing body of knowledge on sustainability in SMEs and highlight the need for better dissemination of environmental laws and guidance to help SMEs comply with regulations. Moreover, the study underscores the importance of considering different dimensions and variables when assessing ESG performance, such as ownership, size, location, and sector. Future research could explore the reasons behind the surprising finding that businesses established for ten years have better ESG performance than newer businesses. This research could delve into different industries and regions to determine if this finding holds universally. Additionally, investigating the impact of specific initiatives or policies in Penang that contribute to better ESG performance could provide valuable insights for policymakers in other regions.

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