

ESG-i Assessment Framework:

Empowering Sustainable and Ethical Growth for Micro, Small and Medium-Sized Enterprises



Published by

International Shari'ah Research Academy for Islamic Finance (ISRA)
Research Management Centre
An imprint of INCEIF University
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Citation

Tabet, I., Muhammad, M. & Mohamad, A.H. (2024), 'ESG-i assessment framework: empowering sustainable and ethical growth for micro, small and medium-sized enterprises', ISRA Research Paper No. 123/2024, ISRA Research Management Centre, Kuala Lumpur.

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EXECUTIVE SUMMARY

Micro, small and medium-sized enterprises (MSMEs) play a pivotal role in driving economic growth, fostering innovation, and providing employment opportunities globally. According to the World Economic Forum (2021), MSMEs represent about 90 per cent of business establishments globally and contribute up to 70 per cent of both employment and global gross domestic product (GDP), accentuating their role as the backbone in many economies.

As the global economy transitions towards more sustainable and responsible business practices, and environmental, social, and governance (ESG) factors become increasingly scrutinised, MSMEs are presented with both opportunities and challenges to align their operations with sustainability practices and ESG requirements. Yet, most of the existing sustainability assessment frameworks tend to cater for the needs of large corporations.

Realising this gap, INCEIF University—in collaboration with Ficus Capital—has developed the Shari'ah-compliant ESG (ESG-i) Assessment Framework to assess sustainability practices among MSMEs in Malaysia.

The ESG-i Assessment Framework serves as a starting point for MSMEs in understanding complex sustainability frameworks and taxonomies that are incongruent with their operational reality. By incorporating Shari'ah principles and embracing the Quadruple Bottom Line (QBL) concept—Planet, People, Profit, and Principle—the framework provides a comprehensive blueprint for evaluating sustainability practices among MSMEs. In contrast to the existing frameworks, the ESG-i Assessment Framework simplifies the criteria for evaluating sustainability practices among MSMEs and provides them with an assessment tool for them to comprehend and integrate into their businesses, regardless of their size and scale.

The journey of developing the ESG-i Assessment Framework transcends theoretical constructs to achieve practical efficacy. The pilot phase, featuring a diverse set of MSMEs, not only demonstrates its real-world viability but also emphasises the need for a targeted approach in supporting MSMEs on their journey towards a Low Carbon, Circular and Resilient (LCCR) future. This aligns with the current strategic initiatives taken by many financial institutions and regulatory supervisory authorities driving transition finance.

Building upon insights from the pilot phase and feedback from different stakeholders—regulators, practitioners, Shari'ah scholars, and academicians—the ESG-i Assessment Framework has undergone comprehensive enhancements. Aligned with the prevailing domestic ESG guidelines, taxonomies, and assessment framework (e.g., Securities Commission Malaysia (SC)'s Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market (SRI Taxonomy); Sustainable and Responsible Investment Sukuk Framework; Maqasid Al-Shariah Guidance Islamic Capital Market (Maqasid Guidance); Bank Negara Malaysia (BNM)'s Climate Change and Principle-Based Taxonomy (CCPT), Value-Based Intermediation (VBI); and SME Corporation Malaysia (SME Corp. Malaysia)'s PKS Lestari), as well as international sustainability assessment frameworks (e.g., B Impact Assessment by B Corporations (B Corp), ESG Score by Refinitiv, and standards issued by Global Reporting Initiative (GRI)), the ESG-i Assessment Framework

provides a simplified tool developed in recognition of the reality of MSMEs' operations and capabilities. Hence, it serves as a transitional framework for them to embrace sustainability practices. It not only provides an assessment tool but also acts as a bridge to carry MSMEs through the evolving labyrinth that the global sustainability landscape represents. The ESG-i Assessment Framework beckons to be a catalyst for change and champions a more sustainable supply chain for MSMEs.

The ESG-i Assessment Framework is increasingly crucial as the European Union's Carbon Border Adjustment Mechanism is set to take effect in 2024, bringing about substantial implications for the Malaysian economy, particularly impacting MSMEs, which contribute over 16 per cent to the country's exports.

Keywords: Shari'ah, ESG-i Assessment Framework, Sustainability, MSMEs

INTRODUCTION

The evolving global economic landscape, marked by climate change impacts, technological disruption, socioeconomic inequalities, and shifting expectations about the role of businesses, has forced MSMEs to plan beyond their financial sustainability. The global supply chain is significantly affected by numerous large corporations steering towards sustainability. Most MSMEs are at the base of the chain, supplying to larger corporations, which necessitates them navigating the evolving landscape to embrace sustainability in order to avoid being cut off from the chain. Conducive regulations and policies along with a supportive ecosystem are required to elevate MSMEs to drive sustainability and achieve their goals and economic prosperity.

In Malaysia, MSMEs constitute a remarkable 97.2 per cent of its business establishments, 38.4 per cent of its GDP, almost 48.2 per cent of its employment, and 16.3 per cent of its exports, highlighting their importance in the nation's economic landscape (DOSM, 2023).

The scale and diversity of MSMEs lead them to face unique challenges and opportunities. While their nimbleness can be advantageous in adapting to changing market conditions, their limited resources and relatively small operational footprint can make them vulnerable to external factors such as supply chain disruptions, regulatory changes, and shifts in consumer preferences. The high failure rate and vulnerability of smaller firms—witnessed on a massive scale during COVID-19 when over 150,000 MSMEs closed their doors in Malaysia, leading to 1.2 million job losses—amplify the need for tailored support to foster growth, resilience and sustainability (Mushtaq, 2022). Despite their significance in driving economic growth and job creation, MSMEs often face constraints in accessing capital, implementing cutting-edge technologies, and navigating complex regulatory landscapes (World Economic Forum, 2021).

By embracing sustainable practices, MSMEs cannot only mitigate their operational risks but also unlock new markets, attract conscious consumers, and contribute to the broader sustainable development agenda.

For 80 per cent of Malaysian MSMEs, there is an additional layer to navigate—halal operations—in aligning their operations with sustainability principles. These enterprises must ensure compliance with Shari'ah principles while also integrating ESG factors into their business practices. The government currently has MSMEs at the core of all its national policies and strategies (Ministry of Entrepreneur Development and Cooperatives, 2020; Ministry of Economy, 2022; Ministry of Finance, 2023; Ministry of Investment, 2023). The government is actively working on strategies to increase the number of certified halal MSMEs and encourage them to explore international markets. As Malaysian halal MSMEs try to export, they will imminently encounter ESG requirements and challenges.

By embracing sustainable practices, MSMEs cannot only mitigate their operational risks but also unlock new markets, attract conscious consumers, and contribute to the broader sustainable development agenda.



Navigating the intersections between halal requirements, ESG standards, and sustainability agenda can be a complex endeavour, requiring specialised guidance and support. Furthermore, halal MSMEs may face unique hurdles in accessing financing options that adhere to Islamic finance principles while also promoting sustainable initiatives.

Accordingly, this research paper proposes the ESG-i Assessment Framework that aims to become a pivotal tool for MSMEs to foster a comprehensive and inclusive transition towards sustainable development within Malaysia's dual financial system.

The paper is organised as follows: After this introduction, **Section 2** navigates ESG adoption among MSMEs, particularly in the Malaysian context. **Section 3** provides an overview of the ESG-i Assessment Framework, explaining its objectives, approach, and building blocks. **Section 4** discusses the pilot study conducted on the ESG-i Assessment Framework to ensure its practicality and effectiveness, while **Section 5** presents the enhanced ESG-i Assessment Framework that took into consideration insights gathered from the pilot study and stakeholders' feedback. **Section 6** concludes the study.



NAVIGATING ESG ADOPTION AMONG MSMEs

MSMEs and ESG: Small Businesses, Big Impact

Over the past three decades, the United Nations has driven global cooperation to tackle climate change, leading to the widespread adoption of the ESG framework for managing sustainability risks holistically. Achieving ESG targets necessitates active partnership between governments and businesses, with large corporations relying on the integration of MSMEs within their value chains. The substantial role played by MSMEs in the global supply chain highlights the crucial need to promote inclusive and sustainable practices among them as their effects ripple across the wider economy.

While conversations around ESG and sustainability might not resonate as pressing concerns for MSMEs, these considerations are becoming increasingly intertwined with their core concerns such as profit growth, cash flow management, and sales strategy. Research has evidenced that MSMEs embracing ESG practices tend to achieve better financial performance and exhibit lower risks. Additionally, they enjoy enhanced access to capital and lowered capital costs (Clarkson *et al.*, 2008; Eccles & Serafeim, 2013; Grewal *et al.*, 2021). A report by the Sustainable Finance Institute Asia 2022 found that Malaysian MSMEs are losing RM292 billion in revenue due to non-ESG compliance. It causes them to lose large corporations as their exporters and importers, to face reputational risks, and to miss out on sustainability-related tax incentives (UNGC, 2023).

Malaysian MSMEs are losing RM292 billion in revenue due to non-ESG compliance. It causes them to lose large corporations as their exporters and importers, to face reputational risks, and to miss out on sustainability-related tax incentives.

Globally, larger SMEs are leading the way in sustainability impact, with a strong willingness to prioritise ESG. According to a survey conducted by DBS Bank-Bloomberg Media Studios SME in August 2022 across six markets, 83 per cent of SME business leaders in Asia emphasised the high priority of ESG for their businesses. However, a mere 5 per cent of Malaysian MSMEs expressed concern about ESG (Alliance Bank, 2023). This sentiment is a reflection of a larger narrative. The link between the increasingly materialising ESG risks and the primary concerns of MSMEs—such as profit growth, cash flow management, and sales strategy—is not well understood. COVID-19's impact has only emphasised this reality, with supply chain disruptions leading to a distressing 50 per cent drop in business for 70 per cent of MSMEs (Azril, 2020).

Several government initiatives have been developed intending to drive the necessary change and overcome the limited adoption of ESG practices among Malaysian MSMEs. Government agencies such as SME Corp. Malaysia are taking initiatives to promote sustainability, such as providing simplified guidelines and assessment toolkits to help MSMEs integrate ESG practices (SME Corp. Malaysia, 2023). However, more comprehensive



measures are required—including support from banks, policy incentives, and awareness campaigns—to enable MSMEs to recognise and unlock the potential benefits of sustainable business practices while mitigating associated risks.

Anticipating the rollout of the Carbon Border Adjustment Mechanism in 2026, Malaysian MSMEs, who collectively contribute 16.3 per cent of the country's exports, confront a pivotal juncture. Embracing sustainability will become crucial for adapting to the changing trade dynamics to make sure they do not lose their competitiveness (MATRADE, 2019; UNGC, 2023).

Furthermore, the evolving landscape of sustainability is presenting new avenues and career paths to support and meet sustainability goals, generating high-value green job opportunities. It becomes critical for MSMEs to proactively develop and enhance their capacities to ensure a just transition that prevents employees or businesses from being left behind in this transformative period.

The evolving landscape of sustainability presents new avenues and career paths to meet sustainability goals, generating high-value green job opportunities. Hence, it becomes critical for MSMEs to proactively develop and enhance their capacities to ensure a just transition.

While the integration of ESG practices may initially seem disconnected from Malaysian MSMEs' immediate concerns, the interdependence between these considerations and core operational aspects is becoming increasingly apparent. Addressing this gap through tailored resources, incentives, and awareness campaigns can enable MSMEs to unlock the potential benefits of sustainable business practices while mitigating associated risks and contributing to the national economy.

ESG Assessment Landscape for MSMEs

The international sustainability landscape has undergone a profound transformation in recent years, driven by fundamental global goals and principles such as the Sustainable Development Goals (SDGs), Principles for Responsible Investment (PRI), and Greenhouse Gas (GHG) protocols. These overarching objectives have paved the way for the emergence of reporting frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Partnership for Carbon Accounting Financials (PCAF), and reporting standards such as the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB) to guide organisations in aligning their practices with sustainability objectives.

Governments and institutions, especially those committed to achieving global goals, have undertaken the task of aligning and integrating these standards and frameworks at institutional, country and sector levels. This integration has resulted in the development of taxonomies such as the EU Taxonomy, ASEAN Taxonomy, SC's SRI Taxonomy, and



BNM's CCPT. These taxonomies serve as guiding frameworks for companies and financial institutions to align with their sustainability objectives. They provide classifications and definitions for environmentally sustainable economic activities, and they steer local institutions toward standardised approaches in categorising, strategising and operating to fulfil global sustainability objectives.

To enhance comparability and measurability of performance, rating and ranking agencies have evolved to provide stakeholders with valuable insights. However, the decision-making paths are primarily left to companies. This research paper focuses on **ratings and assessments** from the broader sustainability landscape, as depicted in Figure 1.

Figure 1 Sustainability Landscape



Source: Authors' own based on different sources

While various reporting frameworks, standards, and taxonomies have been developed, many MSMEs remain passive in this broader sustainability landscape for a variety of reasons, including a lack of understanding of the concepts or of their relevance to them. They also lack technical know-how; but more simply, the existing frameworks are primarily tailored for larger corporations.

Malaysia is currently working to provide a growing number of pieces within the sustainability landscape to support MSMEs in their adoption of ESG practices.

One such governmental initiative is Capital Markets Malaysia (CMM), orchestrated under Securities Commission Malaysia, to tailor simplified ESG disclosures relevant to Malaysian MSMEs within the ever-evolving labyrinth of local and international regulations (Capital Markets Malaysia, 2023). Concurrently, the Sustainable Energy Development Authority



Malaysia is driving sustainability by offering grants and incentives for MSMEs to embrace eco-friendly energy solutions (SEDA, 2020 & 2021). Additionally, a plethora of ESG consultancy firms and specialised training programmes are available that are designed to equip Malaysian MSMEs with the expertise and knowledge needed to effectively incorporate ESG considerations into their operational frameworks. The convergence of these supportive avenues evidence the collaborative efforts being exerted to amplify the adoption of sustainable practices among MSMEs.

In recognition of the need to facilitate the transition towards sustainable practices among MSMEs in the manufacturing sector, the Malaysian government has launched the National Industry Environmental, Social, and Governance (i-ESG) Framework under the Ministry of Investment, Trade and Industry (MITI, 2023). This framework aims to prepare MSMEs—which make up 33.5 per cent of the manufacturing sector's contribution to GDP and 45.9 per cent of its share to employment (DOSM, 2023)—to embrace ESG principles. The i-ESG Framework consists of four pillars: standards, financing, capacity building, and market mechanism, supported by six key enablers, including stakeholder engagement, human capital and capabilities, digitalisation, technology, financing and incentives, as well as policies and regulations. Through initiatives such as the ESG Readiness Assessment Programme (i-ESGReady) and iESGStart practical guide, the framework seeks to provide MSMEs with the necessary resources and support to start their sustainability journey, produce sustainability reports, and ultimately meet the more rigorous demands of the 'Accelerate ESG' phase from 2027 to 2030.

In recognition of the need to facilitate the transition towards sustainable practices among MSMEs in the manufacturing sector, the Malaysian government has launched the National Industry Environmental, Social, and Governance (i-ESG) Framework.

Recognising the substantial impact of MSMEs on the economies of Malaysia and many other countries, it becomes crucial to examine their sustainability performance in a manner that directly resonates with them. This approach aims to assist MSMEs in building the necessary capacity to contribute meaningfully to sustainability agendas at both institutional and global levels.

Bridging the Gap: The ESG-i Assessment Framework

The development of the ESG-i Assessment Framework is driven by recognition of the unique challenges and opportunities faced by MSMEs in the evolving path towards sustainability. While some notable ESG assessment frameworks and tools such as Triple Bottom Line (TBL), B Impact Assessment by B Corps, ESG Score by Refinitiv, and PKS Lestari by SME Corp. Malaysia have been instrumental in promoting transparency and accountability in the sustainability domain, two main gaps persist:



- ▶ Firstly, most existing ESG assessment tools are primarily tailored for larger corporations (except PKS Lestari), leaving MSMEs with limited resources and guidance to effectively evaluate their sustainability performance. Developing an integrated, MSME-centric ESG assessment tool tailored to this segment remains an opportunity.
- ▶ Secondly, the integration of Islamic principles within existing assessment frameworks. It is crucial for halal MSMEs to evaluate their sustainability practices within the context of Shari'ah compliance. A holistic approach would ensure that these enterprises maintain a congruent and authentic identity while striving for sustainability and global competitiveness.

To this end, the ESG-i Assessment Framework is designed to bridge these two gaps by providing a comprehensive and practical assessment tool tailored specifically for MSMEs at all stages of their sustainability journey. By offering robust assessment and valuable insights, the framework aims to contribute to transitioning these enterprises in a way that aligns with the country's taxonomies and its national climate and sustainability goals. Given the substantial impact of MSMEs on the global economy, it becomes crucial to examine their sustainability performance through a tool that directly addresses their unique needs.

One of the primary motivations behind the development of this ESG-i Assessment Framework is to empower MSMEs to measure and manage their ESG performance effectively without losing them to sustainability jargon. By providing a structured approach to assessing their sustainability performance, these enterprises can identify areas for improvement, mitigate risks, and capitalise on opportunities arising from the global shift towards genuine sustainable business practices (Clarkson *et al.*, 2008; Eccles and Serafeim, 2013; Grewal *et al.*, 2021).

One of the primary motivations behind the development of this ESG-i Assessment Framework is to empower MSMEs to measure and manage their ESG performance effectively without losing them to sustainability jargon.

Ultimately, the development of the ESG-i Assessment Framework is driven by a vision of empowering MSMEs to embrace sustainability as a catalyst for growth, resilience and positive impact. By equipping them with the necessary tools and guidance, the framework aims to contribute to the broader sustainable development goals while fostering an ecosystem that supports responsible and ethical business practices. Furthermore, it acknowledges the evolving landscape of sustainability and the generation of new green job opportunities, necessitating proactive capacity development among MSMEs to ensure a just transition.



THE ESG-I ASSESSMENT FRAMEWORK: AN OVERVIEW

Objectives of the ESG-i Assessment Framework

'You cannot manage what you do not measure.' This summarises the need for an ESG assessment for Malaysian MSMEs that helps them manage sustainability risks and opportunities. The ESG-i Assessment Framework is strategically designed to achieve the following core objectives:

- ▶ **Simplified assessment:** To develop a comprehensive and simplified framework that seamlessly integrates Islamic principles, ESG criteria, and the pursuit of sustainable growth. By seamlessly blending these elements, the framework ensures that MSMEs can align their practices with ethical, environmental, and financial considerations, fostering a holistic approach to responsible business conduct.
- ▶ **Guided compliance:** To establish a robust framework that guides MSMEs in transitioning towards complete alignment with the ESG framework and Islamic principles. This guidance is delivered through a practical and incremental approach, rooted in the principle of graduality (*tadarruj*). By providing a practical roadmap for MSMEs to transition towards complete alignment with ESG and Islamic principles, the framework aims to facilitate a smooth and achievable journey, recognising the unique challenges and resource constraints faced by these enterprises.
- ▶ **Investment catalyst:** To become the primary point of reference for venture capital and early-stage investors seeking to fund MSMEs. By providing a credible and comprehensive ESG and Islamic principles reference, the framework enhances investment decision-making processes and facilitates the allocation of resources towards responsible and impactful enterprises, promoting financial inclusion and access to financing for sustainable MSMEs.

The ESG-i Assessment Framework operates as a guiding compass for MSMEs, enabling them to navigate the intricate sustainability landscape. Rooted in the Quadruple Bottom Line (QBL) principle—comprising People, Planet, Profit, and Principle—the framework seeks to foster holistic and sustainable business practices.

The ESG-i Assessment Framework, which is rooted in the Quadruple Bottom Line (QBL) principle—comprising People, Planet, Profit, and Principle—operates as a guiding compass for MSMEs to foster holistic and sustainable business practices.

Recognising the growing need for transparency, it serves as a vital tool enabling MSMEs to disclose material sustainability information to key stakeholders like financiers, shareholders, regulators, and society. By providing a structured approach to assess and report sustainability metrics, the framework empowers MSMEs to demonstrate their sustainability commitment,





facilitating access to financing, building credibility, and bridging the gap between MSMEs and the increasing demand for sustainability disclosure. Ultimately, it ensures MSMEs can effectively communicate their progress towards a more sustainable future.

At its core, the ESG-i Assessment Framework strives to equip businesses with the knowledge and tools needed to align with three pivotal concepts: Sharī'ah principles, ESG considerations, and sustainable growth. This triad forms the bedrock upon which the framework stands, providing MSMEs with a clear path to responsible business conduct and enabling them to provide material sustainability information to the broader stakeholders (i.e., regulators and the society) to facilitate better decision making. In essence, the ESG-i Assessment Framework is poised to propel MSMEs towards responsible and impactful operations, fostering growth that is rooted in ethical foundations and sustainable practices.

The ESG-i Assessment Framework recognises that while businesses of all sizes face similar sustainability challenges including labour rights, transparency, and company oversights, the degree of exposures, risks and complexities varies. Therefore, the framework does not deviate from the fundamental assessment criteria and thresholds established by the existing taxonomies and guidelines, such as SC's SRI Taxonomy, BNM's CCPT, ASEAN Sustainable Finance Taxonomy, or EU Sustainable Finance Taxonomy. Instead, it simplifies and adapts existing complex criteria to make them more accessible and applicable for MSMEs. By maintaining consistency with national and international taxonomies while tailoring the approach to the specific context of MSMEs, this framework ensures that smaller businesses can effectively measure and manage their ESG performance. This simplification is crucial as it allows MSMEs to engage with sustainability practices without being overwhelmed by the complexity typically associated with frameworks designed for larger corporations.

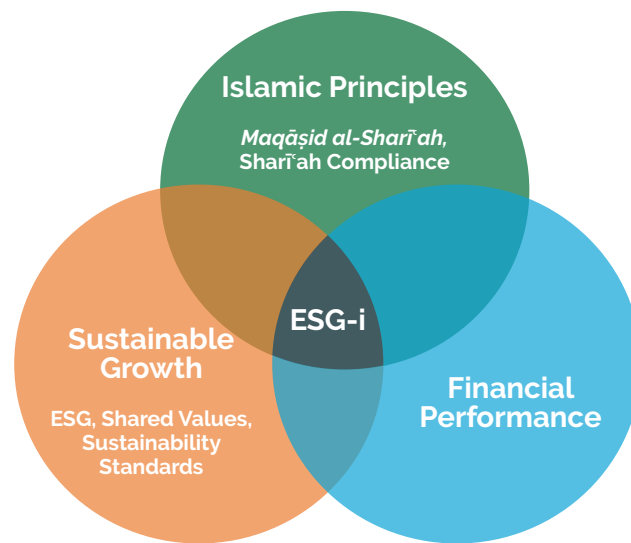
The Approach to the ESG-i Assessment Framework

At the heart of the ESG-i Assessment Framework lies the strategic alignment of Islamic principles, financial performance, and sustainable growth. This convergence is meticulously designed to create a powerful synergy, where ethical considerations, economic prosperity, and environmental stewardship meet to guide the trajectory of businesses towards sustainable success. The ESG-i Assessment Framework draws inspiration from established international and local sustainability assessment frameworks and best practices, integrating key aspects from various renowned sources. Figure 2 illustrates where ESG-i is positioned within Islamic principles, financial performance, and sustainable growth within corporations.

It is noteworthy that there have been increasing efforts to develop general frameworks that integrate Islamic principles and *maqāṣid* with sustainability considerations. These efforts, which primarily target the Islamic banking and financial markets, include Value-Based Intermediation by BNM, Maqāṣid Al-Shariah Guidance: Islamic Capital Market Malaysia by SC, and the Sustainability Guide for Islamic Financial Institutions (IFIs): Guidelines for Islamic Banks by the General Council for Islamic Banks and Financial Institutions (CIBAFI). However, since the focus of the ESG-i Assessment Framework is on MSMEs, this paper does not delve into these sector-specific frameworks.



Figure 2 ESG-i: The Islamic Principles, Financial Performance and Sustainable Growth Nexus of Corporations



Source: Authors' own

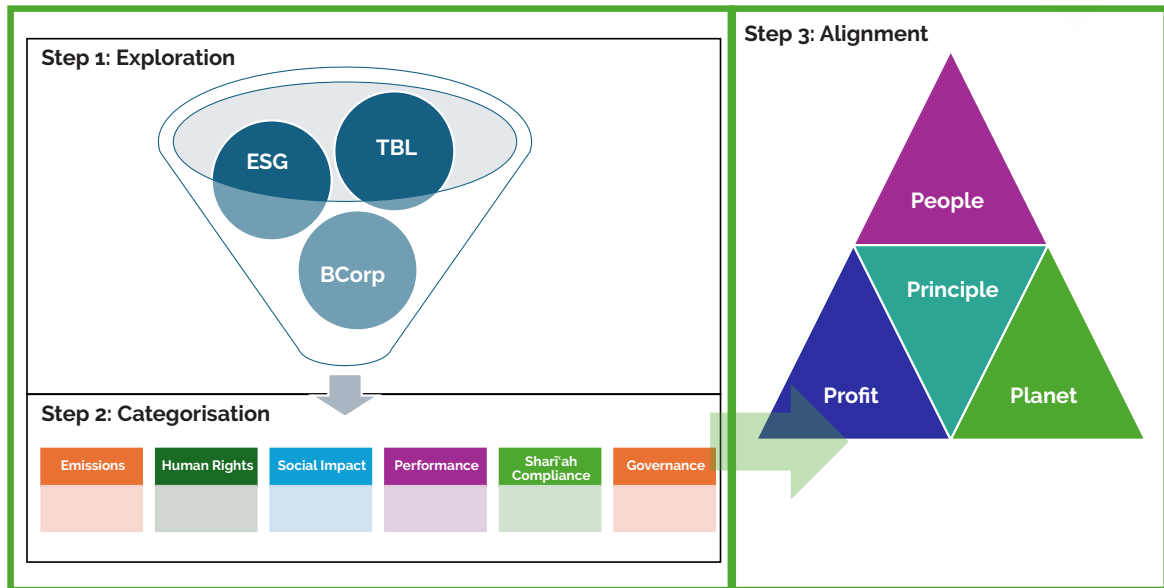
ESG-i Building Blocks

In developing the ESG-i Assessment Framework, the researchers adopt the exploration, categorisation, and alignment method (as depicted in Figure 3) to ensure a comprehensive evaluation while catering to the unique requirements of Malaysian MSMEs (Jan *et al.*, 2021).

- ▶ **Exploration:** In-depth examination of existing international and domestic sustainability assessment frameworks.
- ▶ **Categorisation:** Segmentation of components based on their relevance to MSMEs.
- ▶ **Alignment:** Integration of selected components into the ESG-i Assessment Framework, creating a cohesive assessment tool.

This method establishes a robust foundation, empowering MSMEs to undertake comprehensive evaluations tailored to their challenges and sustainable business practices.



Figure 3 ESG-i Assessment Framework Development Methodology

Source: Authors' own

Step 1: Exploration: The Landscape of Sustainability Assessment Frameworks

To develop a holistic ESG-i Assessment, it is crucial to explore existing international and domestic sustainability assessment frameworks. Noteworthy examples include Triple-Bottom Line (TBL), B Impact Assessment, Refinitiv ESG Score, and PKS Lestari.

TBL: Coined in 1994, the Triple Bottom Line consists of the '3Ps' of People, Profit, and Planet, pushing businesses to consider social and environmental dimensions alongside profits (Jan *et al.*, 2021). However, TBL was a concept that lacked concrete definition, and its nebulous nature leaves room for inconsistent implementation.

B Impact Assessment: Established in 2006, Certified B Corps use the B Impact Assessment to evaluate social and environmental performance, aligning actions with positive impacts. The scoring system is built on five key pillars: Objective, Normalised, Materiality Based, Outcome Oriented, and Balanced. Those pillars ensure that companies are assessed based on their sector and its relevant material issues, and the scoring is more heavily weighted towards indicators capturing direct impact. The B Impact Assessment has five different impact areas—governance, workers, communities, environment, and customers. However, studies have shown that the model presents some weaknesses in the measurement constructs—mainly in the governance and customers' indicators, which do not allow the creation of a solid and well-adjusted model (Silva *et al.*, 2022). In addition, the B Certification process can be costly and time-consuming.



Refinitiv ESG Score: Provides ESG scores based on verified secondary reporting data of listed companies, measuring environmental, social, and governance performance. The score also captures controversies which are particularly relevant for listed companies that are prone to greenwashing and adverse market signals (Refinitiv, 2022). Refinitiv's ESG Score is widely viewed as one of the most rigorous ESG assessments. However, the Refinitiv ESG Score is only for listed companies, and hence, many aspects are not relevant to MSMEs.

PKS Lestari: An initiative by SME Corp. Malaysia which aims to raise awareness and assess ESG performance among MSMEs, addressing the need for comprehensive advice. Nonetheless, PKS Lestari lacks ethical emphasis and Shari'ah consideration.

Step 2: Categorisation: Highlighting Similarities, Differences, and Gaps

The Categorisation step is a pivotal phase within the development of the ESG-i Assessment Framework. This step involves the categorisation of assessment components derived from four main frameworks: TBL, B Impact Assessment, Refinitiv ESG Score, and PKS Lestari. These components are classified under the ESG pillars or ESG impact areas.

A notable feature that is shared by the assessment frameworks reviewed in Table 1 is their lack of religious and Shari'ah and financial consideration., both of which are key aspects for evaluating and promoting a company's sustainability, especially for companies that want to be part of the halal supply chain or that seek Shari'ah-compliant investors. While most frameworks limit the notion of 'principle' to governance structure, this paper recognises that principles extend beyond that, encompassing the very essence upon which a company is built, whether through its *raison d'être*, operational governance, or adherence to ethical principles.

Other key limitations of the reviewed ESG assessments are their limited relevance to MSMEs and their primary reliance on secondary data with their predictive methodologies, which weakens the due diligence and ultimately the measured performance.

Table 1: Comparison of Sustainability Assessment Frameworks

Assessment Tool	TBL	B Impact Assessment	Refinitiv ESG Score	PKS Lestari	ESG-i Assessment
Sustainability principles	✓	✓	✓	✓	✓
Stakeholder alignment	✓	✓	✓	✓	✓
Triple bottom-line focus	✓	✓	✓	-	✓
ESG scores	-	✓	✓	✓	✓
Ethical emphasis	-	✓	-	-	✓



MSMEs	-	-	-	✓	✓
Sharī'ah consideration	-	-	-	-	✓
Financial viability	-	-	-	-	✓

Source: Authors' own

Step 3: Alignment: ESG-i Overarching Principles

Addressing the observed gaps and providing MSMEs with a sustainability compass, the ESG-i Assessment Framework introduces the Quadruple Bottom Line (QBL) principle, encompassing Planet, People, Profit, and Principle.

- ▶ **Planet:** It is guided by *maqāṣid al-Sharī'ah* whereby the protection of life goes beyond human life and whereby the protection of wealth includes protection of the environment and natural resources which are the inherent wealth. Therefore, reducing carbon emissions, minimising energy use, and ensuring a sustainable procurement process are all ways that MSMEs can align their practices with the *maqāṣid al-Sharī'ah* and planet perspective.
- ▶ **People:** It is guided by *maqāṣid al-Sharī'ah*, including the protection of life, progeny, and intellect, whereby it is fundamental to have fair labour and human rights practices, as well as maintaining employee capability and self-growth in order to improve the social conditions in the community where the MSMEs are doing business.
- ▶ **Profit:** Aligned with the tenets of fairness and justice within Islamic economics, the profit perspective that MSMEs should endorse is one of achieving the right balance between profits and the long-term vision instead of solely pursuing short-term gains. It also requires that MSMEs attain comprehensive business improvement beyond financial performance so that the companies' economic goals are aligned with their social and environmental objectives.
- ▶ **Principle:** It is guided by the Sharī'ah objective of protecting religion by including adherence to Sharī'ah as well as strong governance practices with robust internal processes within the MSMEs.

The QBL methodology integrates Sharī'ah governance and principles, spotlighting social and environmental dimensions. Planet signifies environmental preservation; People implies equitable labour practices; Profit symbolises the equilibrium between short- and long-term objectives; and Principle emphasises Sharī'ah compliance and ethical integrity.

By cementing QBL as its bedrock, the ESG-i Assessment Framework delivers a holistic response to the sustainability challenges faced by MSMEs. This strategic underpinning not only bridges gaps but also steers MSMEs towards the comprehensive embrace of sustainable business practices. Table 2 presents categorisation and alignment of ESG-i vis-à-vis QBL and provides a comparison between ESG-i and the existing sustainability assessment frameworks.



This categorisation ensures alignment with general sustainability framework structures, comprehensiveness, consistency, and comparability. Maintaining similar categorisation elements across frameworks facilitated the development of straightforward questions catering to MSMEs while adhering to industry best practices. Through this balanced approach, ESG-i empowers MSMEs to evaluate their sustainability performance effectively in line with national and international sustainability guidelines.

Table 2: : Categorisation and Alignment of Sustainability Assessment Frameworks

QBL	ESG-i Assessment		B Impact Assessment	Refinitiv ESG Score	PKS Lestari
Planet	Environmental stewardship		Environmental management	Emissions	Energy management and climate change
	Air and climate		Air and climate	Innovation	Water management
	Water management		Water	Resource use	Waste management
	Waste management		Land and life		
People	Employees	Labour practices and standards	Financial security	Workforce	Labour practices and standards
		Financial security	Health, wellness, and safety	Community	Health and safety
		Health, wellness, and safety	Career development	Human rights	Employee benefits
		Engagement and satisfaction	Engagement and satisfaction	Product responsibility	Corporate social responsibility
	Community		Civic engagement and giving		
	Suppliers		Supply chain management		
	Customers		Customer stewardship		
			Economic impact		
Profit	Shared values				
	Profitability				
	Efficiency				
	Liquidity				



Principle	Impact drive		Mission and engagement	Corporate social responsibility strategy	Culture and commitment
	Sharī'ah compliance		Ethics and transparency	Management	Integrity/anti-corruption
	Governance	Board oversight		Shareholders	Risk governance and internal controls
		Internal policies and procedures			Decision making and strategic oversight
		Legal compliance			Disclosure, transparency, and data protection
		Ethical decision making			

Source: Authors' own



VALIDATING AND PILOTING THE ESG-I ASSESSMENT FRAMEWORK

Prior to finalising the ESG-i Assessment Framework (as presented earlier in Table 2), the framework has been validated and tested. A pilot test was conducted to assess the ESG-i Assessment's practical application and effectiveness. This section provides insights into the key aspects of this pivotal phase.

Before the validation and refinement of the framework took place, a succinct preliminary questionnaire comprising 20 questions (5 for each pillar) was developed (refer to Appendix 1). The questionnaire was designed to capture essential information through multiple-choice responses.

Data sources: The ESG-i Assessment Framework sources information exclusively from MSMEs and what they decide to disclose. During the pilot study, information used for scoring was collected through a series of questionnaires. These questionnaires served as the primary source of data. Companies participating in the pilot study provided responses to them.

Validation: Apart from the pilot test, the framework underwent scrutiny by key industry stakeholders in a roundtable setting. Feedback from these stakeholders provided valuable enhancements to the framework prior to its finalisation.

Screening methodology: Both negative and positive screening were used to assess the ESG-i disclosures of MSMEs.

- ▶ **Negative screening:** The framework employs negative screening, particularly concerning Sharī'ah compliance, to ensure alignment with Islamic principles. This ensures that companies abstain from activities that contravene Sharī'ah standards.
- ▶ **Positive screening:** Positive screening identifies and assesses companies' ESG practices and performance through multiple-choice questions.

Scoring methodology: The scoring system used in the ESG-i pilot study was designed to assess how well companies align with the developed framework. It is important to note that the goal of the pilot test was to establish the validity of the framework and provide a benchmark of its performance. Therefore, a relatively simple methodology was used to arrive at the total score.

Equalweightage: Each question in the ESG-i pilot questionnaire was given equal importance. This means that all questions carried the same weight in determining a company's overall score.

Score values: For each question, companies were assigned a score value on a scale of 1 to 5. This score represented the company's position on a maturity continuum for that specific aspect of ESG-i practice (5 being the highest).



Aggregation: To calculate a company's overall score, the scores from all 20 questions were added together. This aggregation provided a comprehensive assessment of the company's adherence to ESG-i practices across various aspects.

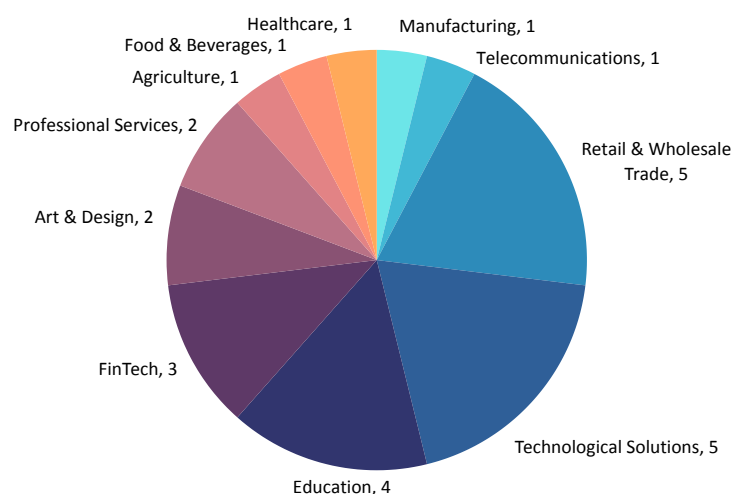
Maximum score: The scoring process was designed to be fair and objective. It assigned equal importance to each aspect of ESG-Islamic practice covered by the questionnaire. Companies were rated on a scale of 1 to 5 for each question, and their scores were added together to arrive at an overall score, with 100 being the highest achievable score for a company that has fully embraced and implemented robust ESG-i practices in all areas covered by the questionnaire.

Scoring range: The aggregated ESG-i score was graded into three categories depending on the scoring range as follows:

ESG-i Category	Not ESG-i	Entry (No Harm)	Intermediate (No Harm with Foundation)	Advance (Do Good)
Scoring Range	0–24	25–49	50–74	75–100

Pilot execution and results: A diverse range of 31 MSMEs across various sectors participated in the pilot phase. This diverse cohort showcased the applicability and adaptability of the ESG-i Assessment Framework in real-world contexts. The ESG-i pilot cohort encompassed sectors including agriculture, art and design, education, fintech, food and beverages, healthcare, manufacturing, professional services, retail and wholesale trade, technological solutions, and telecommunications, as detailed in Figure 4.

Figure 4 Sectoral Breakdown of ESG-i Pilot Study



Source: Authors' own



The primary objective of the pilot phase was to assess the accuracy and comprehensiveness of the ESG-i Assessment Framework in rating the MSMEs' sustainability performance. The pilot results revealed sector-wise performance scores across the ESG-i Pillars. A summary of these scores, reflecting scores for Planet, People, Profit, and Principle, is presented in Table 3.

Table 3: Summary of ESG-i Pilot Average Scores Across Sectors and Pillars

Sector	ESG-i Score Max 100	Planet Max 25	People Max 25	Profit Max 25	Principle Max 25	Legend (Score)
Agriculture	14	10	1	2	1	Advance
Art and design	14	3	3	4	4	
Education	59	8	15	18	18	
Fintech	63	9	16	19	19	
Food and beverages	29	5	6	10	8	
Healthcare	53	7	13	12	21	
Manufacturing	70	15	15	23	17	
Professional services	61	5	15	20	21	
Retail and wholesale trade	48	6	9	18	15	
Technological solutions	52	7	14	15	16	
Telecommunications	70	11	17	21	21	Entry

Source: Authors' own

Furthermore, Table 4 offers a summarised heatmap showcasing priority areas across the ESG-i pillars. Notably, emissions and energy and water use emerged as key areas requiring attention across all MSMEs.

Table 4: Summary Heatmap of ESG-i Performance by Pillars

Planet	People	Profit	Principle	Legend (Performance)
Energy and water	Human rights	Business strategy	Shari'ah compliance	Advance
Waste management	Equity and inclusion	Performance	Board oversight	
Suppliers footprint	Training and development	Cashflow management	Internal policies and procedures	
Emissions	Social impact	Fair compensation	Legal compliance	
Environmental operations	Anti-discrimination	Shared values across supply chain	Ethical decision making	Entry

Source: Authors' own



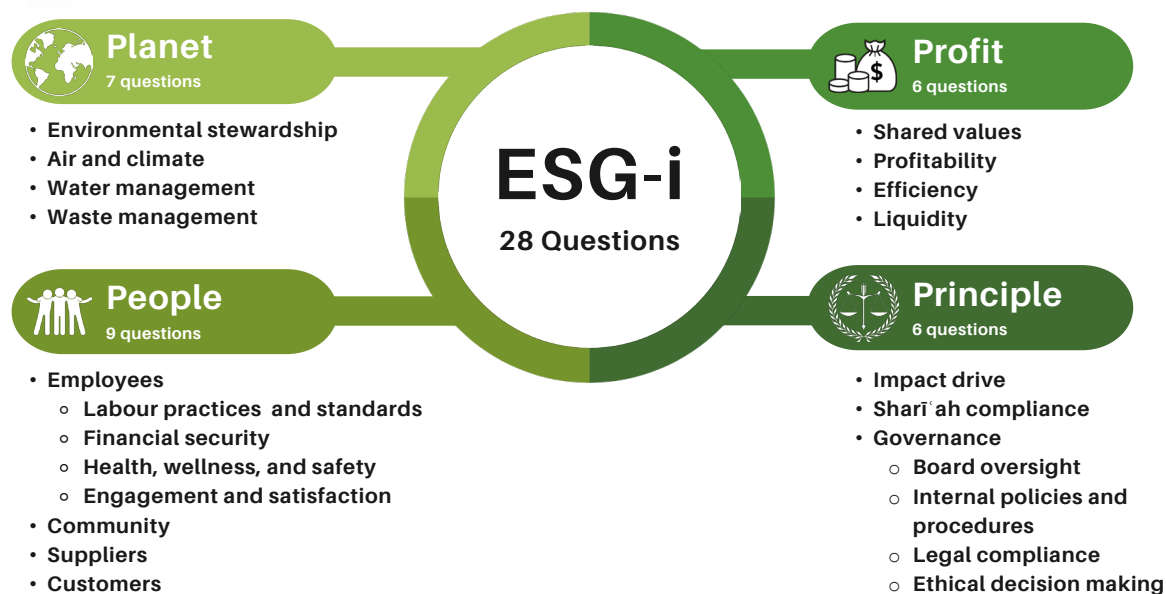
THE ENHANCED ESG-I ASSESSMENT FRAMEWORK

Building upon the insights garnered from the pilot phase and leveraging feedback from stakeholders in the roundtable discussions, there was a need to refine and enhance the ESG-i Assessment Framework. This process aimed to address specific challenges and improve the framework's effectiveness in assessing MSMEs' ESG-i compliance. The key enhancements and the reasoning for them are as follows:

1. **Enhanced granularity:** The ESG-i pilot questions were focused on capturing the maturity continuum of each highlighted aspect of the framework. The questions were enhanced to provide more options for them to cover a wider range and more details of sustainability practices. This approach led to a tripling of the data obtained from the questions without compromising the questions' simplicity or length. The enhanced framework thus provided over 70 data points from 28 questions.
2. **Assessing supplier and customer relationships:** One crucial aspect that became evident during the pilot phase was the need to evaluate how MSMEs engage with their suppliers and customers. This includes understanding the dynamics of these relationships and their impact on sustainability. By incorporating this assessment, the enhanced ESG-i Assessment Framework offers a more comprehensive view of MSMEs' sustainability efforts.
3. **Clearer breakdown of the People and Principle pillars:** Based on the aforementioned, the ESG-i Assessment Framework was enhanced to provide a more granular and targeted assessment. A clearer breakdown of the People and Principle pillars was introduced, enabling a more precise evaluation of the MSMEs' performance in these areas and thus allowing for tailored recommendations and interventions.
4. **Enhanced adaptability:** The iterative process of enhancing the framework aimed to make it more adaptable across various sectors and stages of the MSMEs' sustainability. By refining and expanding the components within each pillar, the framework can accommodate the unique characteristics and challenges faced by MSMEs operating in different industries and at different maturity levels.

Figure 5 provides a categorised breakdown of the enhanced ESG-i Assessment Framework, outlining the number of questions allocated to each pillar and its respective sub-components. (Refer also to Table 2 for comparison between the enhanced ESG-i Assessment Framework and the existing sustainability assessment frameworks.) This detailed framework structure facilitates a thorough examination of ESG-i practices across various dimensions.



Figure 5 Overview of the Enhanced ESG-i Assessment Framework


Source: Authors' own

ESG-i Enhanced Questions

After careful deliberation based on the results highlighted in the pilot test and constructive engagement with the industry players and wider stakeholders, the refined questions of the ESG-i Assessment Framework were established as shown in Table 5.

Table 5: ESG-i Assessment Framework Questions

PILLAR I: PLANET		
Sub-pillar	Revised Question	Options
Environmental stewardship	Which of the following environmental efficiency practices are in place in your company's offices and plant facilities? (Select all applicable)	1. We use energy-efficient appliances and equipment.
		2. We ensure lights and devices are turned off when not in use.
		3. We avoid single-use plastics.
		4. We practice paper and resource recycling.
		5. We promote a culture of environmental responsibility.
		6. None of the above
		7. Other – please describe
		8. N/A – No offices or plant facilities



	How does your company encourage good environmental stewardship? (Select all applicable)	1. We have a written policy encouraging environmentally preferred products and practices (e.g., recycling).
		2. We continuously work on maximising paperless operations in the company.
		3. Our company shares resources with employees regarding environmental stewardship (e.g., energy efficiency).
		4. We have a policy in place for the safe disposal of e-waste and other hazardous materials.
		5. Our company procures environmentally preferred office supplies and provides employees with a list.
		6. None of the above
Air and climate	Does your company monitor, record, or report its energy usage?	1. We do not currently monitor and record usage.
		2. We monitor and record usage but have set no reduction targets.
		3. We monitor usage and have set intensity targets (e.g., relative to revenue, volume produced, etc.) that are being monitored.
		4. We monitor usage and have set absolute reduction targets regardless of company growth.
		5. We have met specific reduction targets during the reporting period.
	What percentage of your company's energy use is produced from renewable sources?	1. 0%
		2. 1–24%
		3. 25–49%
		4. 50–74%
		5. 75–99%
		6. 100%
		7. We do not use renewable energy sources.
	How does your company manage its greenhouse gas emissions? (Select all applicable)	1. We monitor and manage our electricity usage in kilowatt (KW).
		2. We monitor and manage all our corporate-related transportation.
		3. We incentivise employees to use public transportation.
		4. We encourage online meetings to reduce commuting.



Water management	Does your company monitor and manage your water usage?	1. We do not currently monitor and record water usage.
		2. We regularly monitor and record water usage but have not set any reduction targets.
		3. We monitor and record water usage and have set specific reduction targets relative to previous performance (e.g., a 5% reduction of water usage from baseline year).
		4. We regularly monitor and record water usage and have set science-based targets necessary to achieve sustainable usage linked to our local watershed.
		5. We have met specific reduction targets set during this reporting period.
Waste management	Which of the following best describes how your company monitors and manages waste production? (Select all applicable)	1. We implement Reduce-Reuse-Recycle practices.
		2. We monitor and record waste production but have not set specific reduction targets.
		3. We utilise waste from one production line to create new products.
		4. We have achieved zero waste to landfill/ocean.
		5. None of the above
		6. N/A – Our company has a virtual office.

PILLAR II: PEOPLE		
Sub-pillar	Revised Question	Revised Options
Labour practices and standards	What percentage of individuals working for the company are officially employed on the payroll of the company?	1. 0%
		2. 1–24%
		3. 25–49%
		4. 50–74%
		5. 75–99%
		6. 100%
	Does your company have written employment contracts or agreements for all employees and contractors? or agreements for all employees and contractors?	1. Yes, we have written contracts for all employees and contractors.
		2. Yes, we have contracts for employees, but not for contractors.
		3. No, we do not have written contracts for any employee or contractor.



Financial security	What percentage of employees on a Full Time Equivalent (FTE) basis are paid at least RM1,500?	1. <75%
		2. 75–89%
		3. 90–99%
		4. 100%
		5. N/A
Health, wellness, and safety	What percentage of workers receive healthcare coverage either through a government plan or paid by the company?	1. <25%
		2. 25–50%
		3. 51–75%
		4. 76–99%
		5. 100%
Engagement and satisfaction	Which of the following policies and practices related to employee development, engagement, and satisfaction are implemented in your company? (Select all applicable)	6. N/A
		1. We ensure compliance with labour laws and human rights standards through documentation and contracts.
		2. We provide training opportunities for professional development, including on-the-job training and knowledge sharing.
		3. We have a written employee handbook that includes policies on non-discrimination, anti-harassment, work hours, occupational safety and health (OSH), pay, benefits, training, leave, grievance resolution, and prohibition of child labour and forced labour.
		4. We have established employee feedback channels and regularly assess employee satisfaction.
Community	In which of the following ways does your company engage in activities that create a positive impact for stakeholders, charitable partners, vendors or suppliers in need, your local community, or civic engagement? (Select all applicable)	5. None of the above
		6. Other – please describe
		1. Financial or in-kind donations (excluding political causes)
		2. Community investments
		3. Community or pro-bono service
		4. Advocacy for adopting improved social or environmental policies or performance
		5. Partnerships with charitable organisations or membership with community organisations
		6. Discounted products or services to qualified underserved groups
		7. Free use of company facilities to host community events
		8. Equity or ownership in the company granted to a non-profit organisation
		9. None of the above
		10. Other – please describe



Suppliers	What kind of information does your company collect from its suppliers to assess their social and environmental impact? (Select all applicable)	1. Emissions data (e.g., greenhouse gas emissions).
		2. Labour practices and working conditions.
		3. Social responsibility practices.
		4. Waste management and disposal practices.
		5. Ethical sourcing and supply chain transparency.
		6. Environmental certifications or compliance.
		7. Other – please describe.
		8. N/A – We do not collect information from our suppliers.
	What actions does your company take if you discover adverse practices by your suppliers in areas such as environmental impact, labour practices, or ethical conduct?	1. We continue to work with the supplier while actively addressing and rectifying the adverse practices.
		2. We engage with the supplier to discuss the issues and work together to improve their practices.
		3. We immediately stop dealing with the supplier and seek alternative sources.
		4. None of the above
Customers	Which of the following does your company practice to manage the impact and value created for your customers or consumers? (Select all applicable)	1. We offer product/service guarantees, warranties, or protection policies.
		2. We have third party quality certifications or accreditations.
		3. We have formal quality control mechanisms.
		4. We have feedback/customer service feedback or complaint mechanisms.
		5. We monitor customer or consumer satisfaction.
		6. We assess the outcomes produced for our customers through the use of our product or service.
		7. We have written policies in place for ethical marketing, advertisement, or customer engagement.
		8. We manage the privacy and security of customer data.
		9. None of the above



PILLAR III: PROFIT		
Sub-pillar	Revised Question	Revised Options
Shared values	How does your company create shared value within your operation?	1. We use energy-efficient appliances and equipment.
		2. We have informal processes for us to create value for both our business and stakeholders beyond attaining product-market fit (e.g., employee-led initiatives, ad-hoc community support, etc.).
		3. We have formal processes for us to create value for both our business and stakeholders beyond attaining product-market fit (e.g., impact measurement and reporting, stakeholder engagement, awareness building, etc.).
		4. None of the above
	What is the percentage of founders/owner remuneration over total company compensation?	1. <30%
		2. 30–50%
		3. 50–70%
		4. >70%
Profitability, efficiency, and liquidity	Over the past 5 years, how frequently has your company been profitable?	1. Consistently profitable every year
		2. Profitable in most years
		3. Profitable in about half of the years
		4. Profitable occasionally
		5. Rarely or never profitable
	What is your average growth rate for the past 5 years?	1. <0% (Business is declining)
		2. 0%
		3. 1–5%
		4. 6–10%
		5. 11–15%
		6. 16–20%
		7. >20%
	How many times has your company received financing (loans or investments) in the past 5 years?	1. 0 time
		2. 1 time
		3. 2 times
		4. 3 times
		5. 4 times
		6. 5 times or more
	How long can your existing funds, as of now, sustain your monthly operations?	1. 1–3 months
		2. 3–6 months
		3. 6–12 months
		4. 1–2 years
		5. More than 2 years



PILLAR IV: PRINCIPLE		
Sub-pillar	Revised Question	Revised Options
Commitment to positive impact	Describe your company's approach to creating positive impact.	1. We do not focus on social or environmental impact.
		2. We think about it occasionally but not consistently.
		3. We consider it frequently but it is not our top priority.
		4. We consistently incorporate it into our decision making.
		5. It is a primary measure of our success and a top priority.
Sharī'ah compliance	Does your company meet minimum requirements for Sharī'ah compliance?	1. Yes
		2. No
Board oversight	How does your board of directors oversee and guide the company's operations and strategy?	1. Not in practice
		2. We have a board of directors in the company structure but do not actively engage in or monitor board of directors' meetings.
		3. We have some unrecorded casual discussion on business operations and strategies.
		4. We have periodic board of directors' meetings to oversee company operations and strategies.
Internal policies and procedures	What is the process for documenting internal policies and procedures?	1. Not in practice
		2. We do not have any written policies or procedures.
		3. We have some informal processes and procedures, but they are not documented.
		4. We have documented policies and procedures that are updated periodically.
Legal compliance	What measures are in place to ensure compliance with applicable laws and regulations?	1. Not in practice
		2. We only review compliance matter on a case-by-case basis and need basis.
		3. We monitor our compliance status and legal changes and update our policies but do not have a designated team.
		4. We have a designated team responsible for monitoring compliance status and legal changes.



Ethical decision making	How is business ethics and good values incorporated into decision-making process and company culture?	1. Not in practice
		2. We do not have any specific process for integrating ethical values, just rely on individual employees to act ethically.
		3. We have specific processes for integrating ethical values, but these have not been actively monitored.
		4. We have specific processes for integrating ethical values, and these have been regularly monitored and updated.

Source: Authors' own

ESG-i Scoring Methodology

Based on the results of the pilot and industry validation, the scoring methodology was enhanced to better match the structure of questions given and enhance the accuracy of ESG-i Assessment.

The weights of each pillar were as follows: Planet (30%), People (30%), Profit (20%), Principle (20%). The weights were determined based on the materiality, risks, and opportunities of each pillar to MSMEs, in addition to the extent to which the questions capture the sustainability performance of the business. Moreover, each question was given a weight between 30 to 60 per cent depending on the amount of datapoints each question provides.

The ESG-i Assessment scoring involved two main steps:

1. Firstly, the score of each question was **normalised** to a common unit, this was particularly important as the range of points across the questions varied based on the provided options. For example, the question 'What kind of information does your company collect from its suppliers to assess their social and environmental impact? (Select all applicable)' may grant up to 6 points to those who tick all options, while the question 'What actions does your company take if you discover adverse practices by your suppliers in areas such as environmental impact, labour practices, or ethical conduct?' grants a maximum of 3 points for those who choose '3. We immediately stop dealing with the supplier and seek alternative sources'.
2. **To aggregate and obtain the ESG-i score**, the second step was to multiply the normalised values obtained from the earlier step by the weights of each question, ultimately arriving at the score of each pillar and the aggregate ESG-i score.

The ESG-i Assessment scoring involved two main steps:

- ▶ **Firstly, the score of each question was normalised to a common unit.**
- ▶ **Secondly, the normalised values were multiplied to obtain the ESG-i score.**



The scoring range and categorisation were maintained, with the highest achievable score for an MSME in the ESG-i Assessment was 100.

- ▶ The first quarter (Scores 0–24) reflects MSMEs that generally do not engage in sustainability practices.
- ▶ The second quarter (Scores 25–49) reflects MSMEs that are at the entry level in sustainability and aim to do no harm.
- ▶ The third quarter (Scores 50–74) reflects MSMEs that are intermediate and have established some sustainability-related foundations.
- ▶ The last quarter (Scores 75–100) reflects advanced companies that fully embrace sustainable practices across all pillars covered by the questionnaire.



CONCLUSION

In the quest for a more sustainable and equitable world, the role of businesses, particularly MSMEs, is paramount. Recognising the need for a holistic and comprehensive approach to assessing sustainability, we embarked on a journey to develop a novel assessment framework—the ESG-i Assessment Framework. This paper has summarised the inspiration, formulation, and piloting phases of the ESG-i Assessment, shedding light on its significance, methodology, and real-world application.

The ESG-i Assessment Framework emerged as a response to the limitations observed within existing sustainability assessment frameworks that are agnostic in nature and bear very limited relevance to MSMEs. By integrating Sharī'ah principles, embracing the Quadruple Bottom Line (QBL) concept of Planet, People, Profit, and Principle, and delving into the nuanced components of each pillar, the ESG-i Assessment Framework offers a simple, yet comprehensive and inclusive blueprint for assessing sustainability practices for MSMEs. Unlike conventional approaches, the ESG-i Assessment Framework emphasises the essence upon which MSMEs establish themselves, ensuring alignment with ethical principles, operational governance, and long-term vision.

By integrating Sharī'ah principles, embracing the Quadruple Bottom Line (QBL) concept of Planet, People, Profit, and Principle, and delving into the nuanced components of each pillar, the ESG-i Assessment Framework offers a simple, yet comprehensive and inclusive blueprint for assessing sustainability practices for MSMEs.

Throughout this journey, this assessment framework transcended theoretical constructs to target efficacy in real-world scenarios. The pilot phase, which included a diverse set of MSMEs, showcased the framework's practicality and adaptability. The ESG-i pilots identified sector-specific strengths and vulnerabilities that would be instrumental for not only MSMEs but also investors and other stakeholders. This dynamic interaction emphasised the framework's pivotal role in facilitating targeted interventions and shaping sustainability strategies for a more conducive sustainability ecosystem.

Based on the results and feedback from the pilot, the ESG-i Assessment was further enhanced to expand its coverage and rigour while maintaining its simplicity and relevance to business establishments of all sizes. It is our firm belief that the ESG-i Assessment Framework will not only empower MSMEs to navigate the complex landscape of sustainable practices but also enable them to better understand the sustainability risks and opportunities as the sustainable supply chain locally and globally continues to evolve.

In conclusion, as we continue to witness the significant growth in sustainability awareness across the economy, one driven by conscious and principled business practices, we envision the ESG-i Assessment Framework to be at the forefront of assessment frameworks for MSMEs. As we forge ahead and continuously work on further developing the ESG-i



Assessment Framework and its scoring mechanism, we invite businesses, scholars, policymakers, and change agents to join hands and embark on this transformative journey towards a sustainable future, enriched by the principles of the ESG-i Assessment Framework, poised to shape the contours of sustainable excellence for Malaysian MSMEs and beyond.



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APPENDIX 1

The Piloted ESG-i Assessment Framework

Planet	People	Profit	Principle
How does your company monitor your company energy and water usage?	How do you ensure compliance with labour laws and international human rights standards?	How does your company plan and monitor your business strategy?	Does your company meet minimum requirements for Shari'ah compliance?
How does your company undertake the waste management process?	What is the race/ nationalities and gender composition in your company?	What steps have you taken to improve your company's overall performance beyond financial metrics?	How does your board of directors oversee and guide the company's operations and strategy?
How does your company assure environmental-friendly supplier or partner in the procurement process?	How do you invest in employee training and development to support their personal and professional growth?	What is the ratio between operating cashflow and financing cashflow?	What is the process for documenting internal policies and procedures?
How does your company monitor and track its carbon emissions?	How do you measure and track the impact of your business operations to society?	What is the percentage of founders/owner remuneration over total company compensation?	What measures are in place to ensure compliance with applicable laws and regulations?
How does your company plan for investment towards an environmentally friendly operation?	How does your company address and prevent discrimination and harassment in the workplace?	How does your company create shared value within your operation?	How are business ethics and good values incorporated into decision making and company culture?

Source: Authors' own



NOTES



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