GOVERNANCE CODE FOR MALAYSIAN MSMEs

DRAFT FOR
PUBLIC CONSULTATION

Q1 2024

Public Consultation

The SME Governance Working Group, formed with the support of the Ministry of Entrepreneur and Cooperative Development (MECD), issued the draft Governance Code for Malaysian MSMEs (Code) for public consultation.

The SME Governance Working Group is chaired by the Securities Commission Malaysia (SC), with members comprising representatives from MECD, SME Corporation Malaysia (SME Corp.) and the Malaysian Institute of Corporate Governance.

The development of the Code is aligned with the goal and strategic thrust under the 12th Malaysia Plan and the National Entrepreneurship Policy 2030 to improve transparency and integrity and ensure a competitive business environment.

Adoption of the Code by MSMEs will be voluntary and the Code complements other existing guidance available for MSMEs including the ESG Quick Guide for MSMEs by SME Corp. Malaysia and Capital Market Malaysia's Simplified ESG Disclosure Guide.

The Code focuses specifically on governance practices including those required to ensure there is clear accountability for decision-making including those related to the management of sustainability risks and opportunities of the company. The Code also acts as a precursor to the Malaysian Code on Corporate Governance (MCCG) which is targeted at listed companies. The implementation of the Code will be led by the Malaysian Institute of Corporate Governance, working closely with SME Corp. Malaysia and other relevant agencies.

The Code comprises five fundamental principles, including decision-making & strategic oversight, culture & commitments, risk governance & internal controls, sustainability, disclosure, transparency, & data protection. It is structured to provide comprehensive guidance for MSMEs, offering a Governance and Sustainability Matrix for an overview of essential principles and practices. This unified approach aims to assist MSMEs in fostering long-term sustainability, attracting investment, and effectively navigating the complexities of the contemporary business landscape.

The public consultation will run from 11 March 2024 to 30 April 2024, and the public can access the document and submit comments at
www.micg.org.my/msmecode

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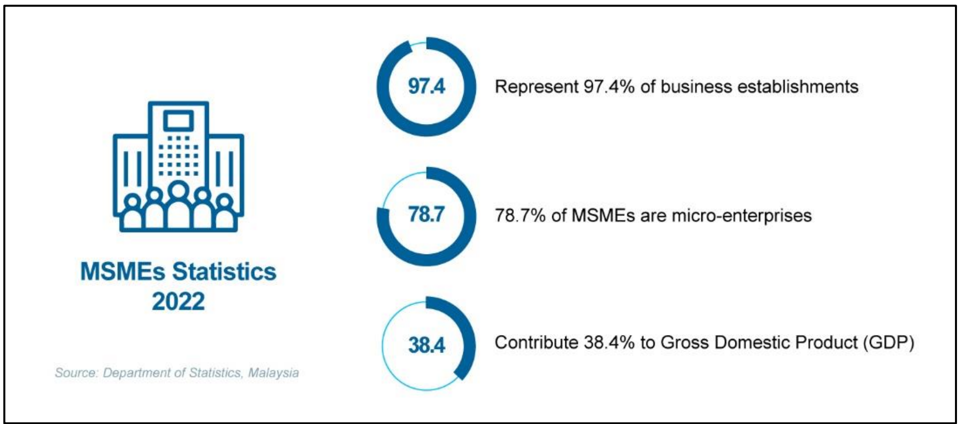
INTRODUCTION

1.1 Corporate governance refers to the process and structure used to direct and manage the business and affairs of the company, promoting business prosperity and corporate accountability. The ultimate objective is to realise long-term shareholder value while considering other stakeholders' interests[1].

1.2 Governance forms a core foundation for Micro, Small, Medium, and Enterprise (MSMEs) to support the growth and competitiveness of their businesses. It provides the essential framework and principles for these businesses to effectively manage their operations, allocate resources, and make strategic decisions that foster sustainable development for the company.

1.3 Building on corporate governance principles, sustainability practices become essential for MSMEs due to their pivotal role in the broader supply chain. As key suppliers and service providers to larger enterprises, MSMEs impact the supply chain significantly. Embracing sustainability enhances competitiveness and reputation and contributes to the supply network's overall resilience and responsible growth. It aligns with the evolving expectations of conscientious consumers and partners. The credibility of a company's strategy, targets, and actions hinges on the efficacy of its governance structure in overseeing these elements.

MSMEs form the backbone of the Malaysian economy and contribute significantly towards sustaining the livelihoods of millions throughout the country. The diagram below highlights major statistics about MSMEs in Malaysia.



However, Malaysia has a low market concentration index where the market is not dominated by a small number of firms, with the nation dispersing its trade activities across multiple markets, including large global economies, positioning the nation well in the worldwide supply chain. Considering the significance of MSMEs to the nation's socio and economic well-being and its exposure to countries with progressive sustainability agendas, it is imperative to ensure that they are resilient and that businesses are conducted in a responsible and sustainable manner.

[1] Corporate governance as defined in the High-Level Finance Committee Report (1999) and adopted by the Malaysian Code on Corporate Governance (MCCG) issued by SC Malaysia.

1.4 The *Governance Code for Malaysian MSMEs* (Code) has been developed to guide MSMEs in enhancing governance within the business ecosystem. This Code plays a pivotal role in sustaining the operation of companies, facilitating effective management of MSMEs, and amplifying the roles and contributions of MSMEs in nation-building. This initiative forms an integral component of the MSMEs' corporate strategy and supports them to elevate the standards of business operations to exceptional levels.

1.5 The development of this Code is in line with the agenda of the 12th Malaysia Plan. It is aimed at improving the business continuity and resilience of MSMEs. The development of this Code was also initiated as part of SC Malaysia's corporate governance strategic priorities to inculcate early understanding and application of governance practices by SMEs. The Code was developed through a Working Group chaired by SC Malaysia, and members include the Ministry of Entrepreneur Development and Cooperatives (MECD), SME Corporation Malaysia (SME Corp. Malaysia) and the Malaysian Institute of Corporate Governance (MICG).

1.6 The Code focuses on the fundamental corporate governance requirements and sustainability specific to MSMEs. It guides companies by outlining the key mandatory requirements to be fulfilled (which are non-exhaustive). The Code also furnishes recommendations regarding best practices that MSMEs are strongly encouraged to adopt. Companies may adjust the implementation of these recommended best practices according to their specific circumstances and needs.

1.7 The Code was developed considering global and local practices, principles, and recommendations. It is a precursor to the MCCG and would also be a crucial stepping stone, particularly for the enterprise companies to progress towards adopting the MCCG. This Code aligns with the ESG Quick Guide by SME Corporation Malaysia. It provides a practical approach for companies to disclose their practices, aligning with the guidelines outlined in the Simplified ESG Disclosure Guide by Capital Market Malaysia.

1.8 To understand the principles of good governance and sustainability for MSMEs, it is essential to recognise the five guiding principles outlined in the Code. These principles serve as a compass to navigate the complex challenges of modern business and address the expectations of stakeholders and society. The five fundamental principles are –

Key Guiding Principles

Principle 1	**Principle 2**	**Principle 3**	**Principle 4**	**Principle 5**
Decision making & Strategic Oversight	Culture & Commitments	Risk Governance & Internal Controls	Sustainability	Disclosure, Transparency & Data Protection

1.9 The Code is divided into two main parts –

- **Part 1** highlights the Governance and Sustainability Matrix that provides an overview of the principles and practices of good governance and sustainability practices for each category of MSMEs.

- **Part 2** provides the principles and practices of good governance and sustainability for MSMEs that highlight the best practices that MSMEs can adopt to foster long-term sustainability, attract investment and navigate the complexities of today's business landscape effectively.

1.10 Each practice will be included with reference below for ease of reference:

- "M" - representing a mandatory requirement. Failure to comply may result in enforcement action. These mandatory requirements are provided/stipulated under existing statutes and/or regulations (e.g. Companies Act 2016, Personal Data Protection Act 2012, Employment Act 1955 and Income Tax Act 1967); however, the requirements stated herein are non-exhaustive or

- "R" - recommended as best practices for MSMEs offering practical guidelines for integrating good governance and sustainability into daily operations.

1.11 For purposes of this Code, MSMEs are defined and categorised[2] as follows–

	MANUFACTURING		SERVICES AND OTHER SECTORS	
CATEGORY	EMPLOYEES	SALES TURNOVER	EMPLOYEES	SALES TURNOVER
Enterprise*	> 200	> RM50 mil	> 75	> RM20 mil
Medium	From 75 to ≤ 200	RM15 mil ≤ RM50 mil	From 30 to ≤ 75	RM3 mil ≤ RM20 mil
Small	From 5 to < 75	RM300,000 < RM15 mil	From 5 to < 30	RM300,000 < RM3 mil
Micro	< 5	< RM300,000	< 5	< RM300,000

Enterprise companies are not sole proprietorship, instead refers to large-scale organisations with extensive resources and complex structures.

[2] Source: SME Corp. Malaysia.

PART 1: THE GOVERNANCE MATRIX FOR MSMEs

The Governance and Sustainability Matrix (Matrix) offers a tailored framework delineating principles and practices of good governance and sustainability for each category of MSMEs. This comprehensive tool recognises the varying operational scales of businesses. It includes public listed companies to showcase the maturity spectrum of practices, demonstrating how expectations evolve from the micro to enterprise levels. With specific guidelines for each category, the Matrix enables businesses to adopt governance and sustainability measures aligned with their capacities, fostering responsible business conduct and contributing to advancing practices across diverse companies.

<table>
<tr><th>POLICIES AND PRACTICES</th><th>MICRO</th><th>SMALL</th><th>MEDIUM</th><th>ENTERPRISE</th><th>PUBLIC LISTED COMPANIES</th></tr>
<tr><td colspan="6">PRINCIPLE 1: DECISION MAKING & STRATEGIC OVERSIGHT</td></tr>
<tr><td rowspan="2">Duties and responsibilities</td><td colspan="5">[M] Every individual serving as a director, partner or owner of the company must consistently act in the company's best interest by discharging their duties correctly and in good faith. To fulfil this responsibility, such individuals must demonstrate and uphold exemplary levels of integrity while setting a leading example.</td></tr>
<tr><td colspan="5">[M] The owner or directors are responsible for the business and affairs of the company.</td></tr>
<tr><td>Delegation of duties</td><td colspan="2">[M] The owner serves as the primary decision-maker.</td><td colspan="3">[M] The board may assign the responsibility for managing day-to-day operations and other business functions to the management.</td></tr>
<tr><td>Expert advise</td><td colspan="5">[M] The owner or directors may obtain the advice of an external advisor for an independent perspective and advise on the company’s strategies and operations.</td></tr>
<tr><td>Meetings</td><td></td><td colspan="4">[R] Directors or partners should convene regular meetings to discuss matters relating to the company.

[R] Owner and shareholder should meet regularly to discuss matters relating to the company, including financial, regulatory compliance and business strategy.</td></tr>
</table>

POLICIES AND PRACTICES	MICRO	SMALL	MEDIUM	ENTERPRISE	PUBLIC LISTED COMPANIES
Independent directors				**[R]** The board should consider establishing a professional board with independent directors to provide greater checks and balances and an unbiased perspective.	**[M]** The board must consist of at least 1/3 independent directors.
Diversity and inclusivity		**[R]** The owner or director must prioritise diversity, including gender, age, culture, and working experience, when making employment decisions, particularly in the hiring process.			
Innovating business	**[R]** The owner or directors must continuously adopt changes. This includes embracing digital technology in business operations, promoting digital communication, cashless transactions and offering products or services through online platforms.				
PRINCIPLE 2: CULTURE & COMMITMENTS					
Regulatory compliance	**[M]** Companies must ensure that their business complies with the relevant laws and regulations, including statutes, regulations, guidelines and rules by the local council.				
Ethical conduct	**[M]** Companies must ensure their employees do not practice unethical conduct that breaches laws and regulations, including accepting or soliciting bribes and fraud.				
Policies on conduct		**[M]** Companies must establish policies and procedures to manage conflict of interest and prevent unethical conduct, including abuse of power, breach of trust, corruption and money laundering.			
Open communication		**[R]** As an integral aspect of cultivating a constructive and good culture of integrity, companies should encourage and be open for employees and other stakeholders to share their concerns, issues, thoughts and ideas with the company.			

<table>
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<tr><td>Diversity</td><td></td><td colspan="4">[R] Companies should prioritise diversity when making employment decisions, particularly in the hiring process.</td></tr>
<tr><td colspan="6">PRINCIPLE 3: RISK GOVERNANCE & INTERNAL CONTROLS</td></tr>
<tr><td>Reporting lines</td><td></td><td colspan="4">[R] Each business unit should clearly understand its reporting lines and the boundaries of its authority.</td></tr>
<tr><td>Constitution</td><td colspan="2"></td><td colspan="2">[R] Companies should adopt a constitution that specifies the rules governing the activities of the business, its shareholders, and directors.</td><td>[M] PLCs are required to adopt a constitution.</td></tr>
<tr><td>Board charter</td><td colspan="3"></td><td colspan="2">[R] Companies have a Board Charter, which identifies, among others, the respective roles and responsibilities of each board member and management and limits of authority.</td></tr>
<tr><td>Partnership agreement</td><td></td><td colspan="2">[R] A partnership company must have a formal shareholders' agreement that comprehensively outlines the operational procedures and delineates the rights and obligations conferred upon the partners, including dispute resolution mechanisms.</td><td colspan="2"></td></tr>
<tr><td>Risk assessment</td><td colspan="5">[R] Companies should assess and consider the inherent and potential risks that may impact the company's business.</td></tr>
<tr><td>Policies on risk</td><td></td><td colspan="4">[R] Companies should establish a formal process for identifying significant business risks, and the management should adopt formal control mechanisms.</td></tr>
<tr><td>Business Continuity Plan</td><td colspan="2"></td><td colspan="3">[R] Companies should establish a Business Continuity Plan that safeguards operations, minimises downtime, and ensures compliance with legal and regulatory requirements during unforeseen disruptions.</td></tr>
</table>

POLICIES AND PRACTICES	MICRO	SMALL	MEDIUM	ENTERPRISE	PUBLIC LISTED COMPANIES
Financial accounts	**[M]** Companies ensure the fundamental financial accounts are meticulously prepared and reconciled.	**[M]** Companies are responsible for ensuring that the fundamental financial accounts, whether audited or management accounts are meticulously prepared and reconciled, considering the national accounting standards.			
Tax governance	**[M]** Companies must establish a systematic process for tax payments, records and filings.				
External audit		**[R]** Companies should formally evaluate the effectiveness of the external audit and formulate policies on preserving the audit function's independence.			
Internal audit			**[R]** Companies should periodically conduct an internal audit review of their business functions vis a vis the policies and procedures.		**[M]** PLCs must establish an internal audit function.
PRINCIPLE 4: EMBRACING SUSTAINABILITY					
Responsible business	**[R]** Companies should embrace responsible businesses that consider, among others, their sustainability impacts, including on the environment, society and biodiversity, while running a business.				
Policies on sustainability practices			**[R]** Companies should consider implementing procedures to govern better and manage sustainability practices. The policies should be communicated to all stakeholders.		
Initiatives and data collection			**[R]** Companies should identify concrete goals for sustainability programmes and suitable metrics for tracking progress. Doing so will help the company identify the results it aims to achieve and the specific actions and activities that will lead to such results.		

POLICIES AND PRACTICES	MICRO	SMALL	MEDIUM	ENTERPRISE	PUBLIC LISTED COMPANIES
Sustainability reporting			**[R]** The company reports its environmental, social, and governance (ESG) initiatives in a sustainability report and makes the document available to the public.		**[M]** PLCs are required to issue sustainability reports annually.
Awareness	**[R]** Companies should create awareness and educate their employees and customers on the importance of sustainability initiatives.				
PRINCIPLE 5: DISCLOSURE, TRANSPARENCY & DATA PROTECTION					
Updates to shareholders			**[R]** For companies with multiple shareholders, with some not actively engaged in its day-to-day operations, the company must furnish periodic updates to all shareholders regarding its performance and strategic initiatives.		
Non-financial disclosures			**[R]** Companies should consider disclosing non-financial information to the public. This may include governance practices, performance summaries, future strategies and corporate responsibility practices.		**[M]** PLCs are required to issue sustainability reports annually.
Guidelines on business processes			**[R]** Companies should establish guidelines that articulate their principles and goals concerning client contentment, product security, staff connections, well-being, ecological preservation, and the local society in which the company functions.		

PART 2: THE PRINCIPLES

Good governance and sustainability principles are essential for the success and longevity of MSMEs in today's complex business environment. These principles are intrinsically linked, with good governance providing the framework for responsible decision-making and sustainability, ensuring that businesses operate in a manner that is economically, socially, and environmentally responsible. In this context, Part 2 of this Code will explore the guiding principles of good governance and sustainability for MSMEs.

PRINCIPLE 1: DECISION MAKING & STRATEGIC OVERSIGHT

Effective leadership hinges on accountability, where individuals take responsibility for organisational tasks and outcomes. This accountability is fundamental for fostering improved performance, robust relationships with customers and employees, and upholding ethical standards. MSMEs must adopt a proactive approach to establish clear accountabilities, drive performance, enhance productivity, and promote a positive environment, ultimately leading to success and sustainable growth.

Practice

M 1.1 Every individual serving as a director, partner or owner of the company must consistently act in the company's best interest by discharging their duties correctly and in good faith. To fulfil this responsibility, such individuals must demonstrate and uphold exemplary levels of integrity while leading by example.

M 1.2 The owner or directors are responsible for the business and affairs of the company. Where applicable, the directors may assign the responsibility for managing day-to-day operations and other business functions to the management or officers of the company.

> Under Section 216 of the Companies Act 2016, directors can delegate board powers to a committee or officer, but they remain accountable for the delegate's actions as if done by the directors. However, directors are not accountable if they reasonably believe that the delegatee will act in line with the directors' duties and have reasonable grounds to trust the delegatee's reliability and competence, having conducted a proper inquiry. The above does not detract from the board's obligation to ensure proper internal control within the company.

M 1.3 The owner or directors have the option to consult with an external advisor to obtain an independent perspective or guidance on the company's strategies and operations.

R 1.4 Directors or partners should meet as frequently as necessary to address all relevant agenda items during their meetings.

A director should devote time and effort to attend and participate in meetings and know what is required of the board and its directors. Additionally, they should stay informed about the company's operations, ensuring compliance with laws and contracts. Insisting on being kept in the loop regarding all significant company matters is crucial for effective corporate management.[3]

It is suggested that the directors meet at least every quarter to discuss matters relating to the company.

R 1.5 For larger companies, the board should consider establishing a professional board with independent directors to provide greater checks and balances and an unbiased perspective to the board.

Professional boards with independent directors bring invaluable expertise, objectivity, and guidance, aiding in strategic planning, risk management, and enhanced decision-making. With a focus on compliance and corporate governance, these boards elevate MSMEs' credibility, fostering access to capital, facilitating succession planning, and ensuring long-term viability.

Independent directors provide an unbiased perspective, promoting ethical practices and instilling trust, while their experience aids in navigating complexities, ultimately enabling MSMEs to thrive in the competitive business landscape.

For purposes of this Code, an independent director refers to a director who is independent of management and free from any business (e.g., advisory, audit, legal, assurance) or other relationship (share ownership and family relationship[4]) which could interfere with the exercise of independent judgement or the ability to act in the company's best interests.

R 1.6 To align business strategies and goals with resource allocation, companies should establish specific targets and key performance indicators (KPIs) for employees and the business.

R 1.7 The owners or directors ought to remain attentive to digitalisation, adapting consistently to changes in business operations and trends. This includes embracing digital technology in business operations, promoting digital communication, cashless transactions and offering products or services through online platforms.

R 1.8 Owners or directors should adopt non-discriminatory hiring policies, prioritising diversity considerations such as gender, age, culture, and working experience. This commitment to fairness fosters an inclusive workplace that values diversity, especially during the hiring process.

[3] Code of Ethics for Company Director and Company Secretary by Companies Commission Malaysia.
[4] Refers to spouse, parent, child including an adopted child and step-child, brother and sister and their spouse.

PRINCIPLE 2: CULTURE & COMMITMENTS

Establishing a culture of compliance and integrity is an essential cornerstone for all businesses, transcending the mere observance of legal norms. It encapsulates a broader commitment to upholding ethical values, fostering transparency, and embracing responsibility. This cultural foundation not only ensures regulatory adherence but also enhances the reputation and trustworthiness of an organisation.

Building and nurturing a culture of compliance and integrity demands a multifaceted approach. First and foremost, leaders must lead by example, exhibiting unwavering dedication to ethical behaviour. Effective communication of the organisation's values and expectations is equally vital, coupled with implementing comprehensive policies and procedures. Continuous training and development are imperative to keep employees abreast of evolving compliance requirements. Furthermore, accountability, transparency, inclusivity, and an unwavering commitment to improvement are integral to sustaining this culture. Such a holistic approach not only safeguards the company but also paves the way for enduring success and positive stakeholder relationships.

Practice

M 2.1 Companies must ensure that their business complies with the relevant laws and regulations, including Acts, regulations, guidelines and rules of the local council.

M 2.2 Companies must ensure that their employees do not practice unethical conduct that breaches laws and regulations, including accepting or soliciting bribes and fraud.

> Companies can implement various initiatives to bolster ethical standards, including audits of policies and procedures to ensure compliance. Consistent and transparent communication with staff and stakeholders is crucial in enhancing awareness about the significance of ethical behaviour. Investing in training programs for capacity building among employees strengthens the organisation's commitment and nurtures a robust culture of integrity and compliance.

M 2.3 Companies must establish policies and procedures for managing conflict of interest and preventing unethical conduct, including abuse of power, breach of trust, corruption and money laundering.

> Companies should consider adopting standards on anti-corruption ISO37001 Anti-Bribery Management System or registering for the Corporate Integrity System Malaysia (CISM) initiative to assess the effectiveness of the company's anti-corruption policy and procedures.

R 2.4 As an integral aspect of cultivating a constructive and good culture of integrity, companies should encourage and be open for employees and other stakeholders to share their concerns, issues, thoughts and ideas with the company.

Director and management should reduce the power distance culture within the organisation, either within the board or between the board, management, staff and other stakeholders. Communication channels should allow for constructive feedback and inputs to be given either openly or in confidence without the fear of reprisal.

R 2.5 Companies should create a confidential whistleblowing system to promote reporting of wrongdoing. This involves implementing clear reporting procedures, safeguarding whistleblowers from retaliation, and maintaining a transparent process for addressing concerns. Regular communication and awareness efforts should be carried out to cultivate a culture of accountability and transparency within the organisation.

PRINCIPLE 3: RISK GOVERNANCE & INTERNAL CONTROLS

A robust governance framework provides a structured and accountable system for decision-making and oversight. Such a framework ensures that all stakeholders, from shareholders and employees to regulators and the broader community, have confidence in the company's ability to operate ethically, transparently, and efficiently. This framework encompasses a set of principles, policies, and processes that guide the organisation in achieving its objectives while adhering to legal and ethical standards. It emphasises accountability, risk management, and compliance, ultimately fostering trust and sustainability in the organisation's operations. A well-designed governance framework safeguards against potential crises and paves the way for long-term success and growth.

Practice

Governance structure

R 3.1 Each business unit clearly understands its reporting lines and limits of authority, including individual limits.

> Limits of authority refer to the predefined boundaries within which individuals or business units operate in a company. This includes understanding reporting lines, which clarify the hierarchy and channels for communication. Additionally, it encompasses individual limits of authority, outlining the specific authority and responsibilities assigned to each employee or team. These limits serve as guidelines to ensure that tasks are executed within the framework of established policies and practices. By clearly defining reporting lines and individual limits of authority, businesses can streamline decision-making processes, enhance accountability, and maintain efficient operations across various units within the company.

R 3.2 Companies should adopt a constitution that specifies the rules governing the activities of the business, its shareholders, and directors.

R 3.3 Companies have a Board Charter, which identifies, among others, the respective roles and responsibilities of each board member and management and limits of authority.

R 3.4 A partnership company must have a formal shareholders' agreement that comprehensively outlines the operational procedures and delineates the rights and obligations conferred upon the partners, including a dispute resolution mechanism.

Risk management

R 3.5 Companies should establish a process to conduct annual assessments and identify inherent and potential risks that may impact the company's business.

> The definition of risk should be comprehensive, including financial and non-financial risks encompassing various areas such as health and safety, human resources, operations, environmental concerns, IT security, and corporate reputation.

R 3.6 Companies should proactively address and mitigate risks by implementing a structured approach to identify significant business risks[5]. Management is encouraged to adopt formal control mechanisms to effectively manage and minimise potential threats to the organisation.

> Distinguishing between risk management practices depends on factors like scale, resource availability, and organisational complexity. Smaller-scale companies typically adopt more informal and resource-conscious approaches, focusing on immediate risks for survival. In contrast, larger companies with greater resources and complexity tend to employ formalised risk management processes. These companies often integrate risk management strategically with long-term business goals, utilise more comprehensive risk assessment methodologies, and navigate increased regulatory scrutiny. The flexibility and adaptability of small companies contrast with the bureaucratic challenges faced by their larger counterparts, influencing the speed and depth of decision-making in response to risks.

R 3.7 Companies should establish standard operating procedures (SOPs) to manage business operations, enhance efficiency and accountability, ensure quality assurance and promote continuous improvements and robust oversight.

> Effective SOPs must prioritise risk management by incorporating comprehensive control oversight measures. This entails careful consideration of the three lines of defence model, where the first line focuses on operational management, the second involves risk management and compliance oversight, and the third involves internal audit and assurance. By integrating these lines of defence into SOPs, companies can ensure a robust framework that fosters a proactive approach to identifying, assessing, and mitigating risks, enhancing operational resilience and regulatory compliance.

R 3.8 Companies should establish a Business Continuity Plan that safeguards operations, minimises downtime, and ensures compliance with legal and regulatory requirements during unforeseen disruptions.

[5] Companies may refer to ESG Quick Guide for the materiality assessment on sustainability.

> A Business Continuity Plan is a comprehensive strategy and set of documented procedures that a company creates to ensure it can continue essential operations, recover from disruptions, and maintain critical functions during unforeseen events such as natural disasters, cyberattacks, or other emergencies, to minimise downtime, safeguard assets, and to preserve the organisation's reputation and financial stability.

Accounts and audit

M 3.9 Companies are responsible for ensuring that the financial accounts, whether audited or management accounts, are meticulously prepared and reconciled, considering the national accounting standards.

M 3.10 Companies must ensure the safekeeping and regular reconciliation of their monthly bank statements with applicable laws and regulations. This practice is essential for effective cash flow management and detecting fraudulent activities.

> Navigating cash flow constraints is a significant challenge for SMEs, requiring a strategic approach to ensure financial stability. Prepare a detailed cash flow forecast outlining anticipated income and expenses. Regularly review this forecast against the actual cash position to identify variances and make informed adjustments. Evaluate existing bank loans, leases, and payment commitments to suppliers, seeking opportunities to renegotiate terms or explore alternative financing options. Proactively managing these elements is essential for SMEs to maintain healthy cash flow, enabling them to meet financial obligations and pursue sustainable growth.

R 3.11 Companies must establish a systematic process for tax payments, records and filings.

R 3.12 Companies should formally evaluate the effectiveness of the external audit and formulate policies on preserving the audit function's independence.

R 3.13 Companies should periodically conduct an internal audit review of their business functions vis-a-vis the policies and procedures.

PRINCIPLE 4: SUSTAINABILITY

Embracing sustainability has become a paramount imperative for MSMEs in today's business landscape. These dynamic and agile enterprises, often serving as the backbone of economies worldwide, increasingly recognise their critical role as part of the supply chain in fostering a more environmentally and socially responsible future. In a world facing pressing challenges such as climate change, resource depletion, and social inequality, MSMEs must seek to minimise their environmental footprint and leverage sustainable practices to enhance their competitiveness, foster innovation, and build trust with customers and stakeholders. This commitment to sustainability aligns with the global sustainability agenda and opens new avenues for growth, resilience, and long-term success in an ever-evolving marketplace. Additionally, MSMEs cannot afford to view this commitment as optional, given that the expectations of their customers, stakeholders, and the regulatory environment impose an imperative. The stringent demands of these constituents necessitate unwavering adherence to standards and best practices, making it a non-negotiable aspect of their operations.

Practice

M 4.1 Companies must ensure adherence to environmental and social compliance espoused under the relevant laws.

R 4.2 Companies should embrace responsible businesses that consider, among others, their sustainability impacts, including on the environment, society and biodiversity, while running a business.

R 4.3 Companies should consider implementing procedures to manage environmental, social and governance (ESG) practices. The policies should be communicated to all stakeholders.

> In implementing procedures in managing ESG practices, companies should consider adopting recognised standards and best practices.

R 4.4 Conduct a comprehensive assessment to identify specific aspects of the company’s business operations that have an environmental impact or are susceptible to environmental factors. This includes evaluating processes, resource utilisation, and supply chain elements to understand the ecological footprint better.

R 4.5 Companies should systematically assess environmental risks that may threaten the business. Consider factors such as regulatory changes, resource scarcity, and climate-related risks. This proactive evaluation aids in developing effective risk mitigation strategies and ensures the company is prepared for potential environmental challenges.

R 4.6 Companies should establish clear and robust procedures to prevent significant environmental impact or reduce emissions. This includes implementing sustainable practices, adopting green technologies, and integrating environmentally friendly policies into day-to-day operations. Regularly review and update these procedures to align with evolving environmental standards.

R 4.7 Regularly assess and address issues relating to labour contracts, promote a supportive work environment, and encourage diverse perspectives. This commitment enhances employee satisfaction, strengthens the company's reputation, and contributes positively to the broader social fabric.

R 4.8 Companies should identify concrete goals for sustainability programmes and suitable metrics for tracking progress. Doing so will help the company identify the results it aims to achieve and the specific actions and activities that will lead to such results.

R 4.9 The company reports its ESG initiative in a sustainability report and makes the document available to the public.

> Companies must consistently report on measurable and verifiable progress in environmental initiatives. Avoid making unsubstantiated or incorrectly worded claims that may lead to reputational risks associated with greenwashing. Provide transparent and accurate information in reports, demonstrating the company's commitment to environmental responsibility and accountability. Regularly communicate progress to stakeholders for enhanced credibility and trust.

R 4.10 Companies should create awareness and educate their employees and customers on the importance of sustainability initiatives.

PRINCIPLE 5: DISCLOSURE, TRANSPARENCY & DATA PROTECTION

In today's rapidly evolving business landscape, MSMEs are crucial in driving economic growth and innovation. These nimble entities are often hailed as the lifeblood of local and global economies, fostering job creation and diversifying industries. However, as MSMEs continue to expand their influence, there is a growing need for them to uphold transparency. Transparency is not merely an ethical choice but a strategic imperative in a world that values trust, accountability, and sustainability.

Practice

R 5.1 For companies with multiple shareholders, with some not actively engaged in their day-to-day operations, the company must furnish periodic updates to all shareholders regarding its performance and strategic initiatives.

> Effective and regular communication with shareholders is paramount for companies with multiple stakeholders, especially those not actively involved in day-to-day operations. To ensure transparency and engagement, companies should establish a practice of providing periodic updates to all shareholders. At a minimum, annual communication should be conducted, offering insights into the company's performance, strategic initiatives, and overall outlook. This proactive approach fosters trust, aligns expectations, and keeps shareholders informed about key developments, contributing to a healthy and collaborative relationship between the company and its investors.

R 5.2 Companies should consider disclosing non-financial information to the public. This may include governance practices, performance summaries, future strategies and sustainability practices.

> The Companies Act 2016 introduces non-financial reporting through the Business Review Report, which is part of the directors' report as per Section 253(3) of the Act. While submission to the Companies Commission Malaysia's Registrar is voluntary and Best Business Practice Circular (BBPC) offers guidance for compliance. This narrative report lets companies disclose essential information about their plans and performance, complementing financial statements.

R 5.3 Companies should set clear guidelines that outline their principles and goals for customer satisfaction, product safety, employee relations, welfare, environmental sustainability, and community engagement.