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SUSTAINABILITY practices are expected to make a huge impact on small and medium enterprises (SMEs) which are the backbone of Malaysia's economy.

Embracing such practices, which include environmental, social and governance (ESG) principles, will pave the way for overseas expansion and attract investors into SMEs.

Speaking with *StarBizWeek*, UOB FinLab head Shannon Lung says he foresees that SMEs in Malaysia will place greater emphasis on sustainability practices in 2024 and beyond.

Local businesses are now beginning to understand the importance of sustainability and that it needs to be incorporated into the DNA of companies, he adds.

"Embracing sustainability results in better operational outcomes as well as enhances reputations and attracts investors with the same beliefs.

"However, sustainability is still a relatively new concept and best-practices are constantly evolving. As a result, SMEs do not know how to embed sustainability strategies into their core businesses.

"This challenge presents an opportunity for private- and public-sector players to step in and guide local SMEs on their green journey in an authentic manner," adds Lung, who oversees UOB FinLab's operations across five markets in Asean – Singapore, Malaysia, Vietnam, Indonesia and Thailand.

UOB FinLab is an innovation accelerator under United Overseas Bank Ltd.

Realising the importance of implementing sustainability into businesses, in October this year, UOB FinLab launched its three-day Jom Transform Sustainability Accelerator Programme in conjunction with the UOB Sustainability Compass tool.

The online tool generates a customised report based on a businesses' sector and maturity in terms of sustainability.

The programme has equipped Malaysian SMEs with insights and knowledge to navigate their journeys to sustainability, helped build longstanding sustainable businesses and created actionable plans.

Separately, Lung says despite economic headwinds, he believes Malaysian SMEs will continue to grow in 2024 and play an even bigger role in the country's economic development.

"From all our programmes in Malaysia, we have witnessed great adaptability and desire to innovate using digitalisation and sustainability. This mindset and motivation

Lending a helping hand

UOB guides local businesses in sustainability

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we are seeing from Malaysian SMEs will continue to push them to greater heights.

"We predict local SMEs will continue to innovate and take advantage of digital tools and incorporate sustainability practices to increase their business competitiveness locally and regionally," he says.

This observation is in line with data from the Statistics Department which saw the contributions from micro, small and medium enterprises (MSMEs) to gross domestic product (GDP) rising to 38.4% compared with 37.4% in 2021.

He says UOB FinLab remains committed to the Malaysian market and will accelerate the digitalisation and sustainability efforts of local SMEs through its regional ecosystem, resources and tailored workshops.

Lung says 2024 will be an exciting year for Malaysia and UOB FinLab looks forward to witnessing the digital and sustainable transformation of Malaysian SMEs.

To a question on the hurdles facing SMEs and what is needed to spur their growth, he says based on current macroeconomic trends, it is apparent that digitalisation has become a key focus for SMEs in the country.

However, he says based on its research, just under six in 10 businesses have succeeded in their digitalisation efforts. The reason nearly half of Malaysian businesses are unable to successfully implement digital tools is a lack of education and digital skills among employees, followed by implementation costs, he adds.

To address implementation costs, he says the Malaysian government has done an amazing job to help SMEs through initiatives such as the SME Digitalisation Grant 2024. This grant allocates an additional

RM100mil in grants of up to RM5,000 for each SME.

Lung says: "Although funding helps SMEs with the initial purchase of equipment, education and knowledge are still crucial to ensure businesses implement digital tools in a successful manner that guarantees business competitiveness.

"Based on the UOB Business Outlook Study 2023, 34% of Malaysian SMEs are looking for more support from industry bodies and government agencies. The private and public sectors need to come together and implement the necessary training needed to help SMEs thrive."

Towards this end, UOB FinLab Malaysia was launched with the inaugural "JOM Transform Programme" in 2019, helmed by UOB Malaysia head of fintech ecosystem innovation William Heng.

Under the programme, Malaysian government agencies such as the Malaysia Digital Economy Corp (MDEC) have worked closely with UOB FinLab to design a programme that helps local SMEs stay competitive in the ever-changing digital economy by giving them access to the tools, know-how and confidence to transform digitally.

Each initiative under the JOM Transform Programme is catered to a different industry to ensure SMEs receive a customised curriculums that are relevant to their business. Since 2019, UOB FinLab has evolved its Malaysian programmes to include the Arts Digital Accelerator, Womenpreneurs, and sustainability and digitalisation.

Lung says: "Since our inception in Malaysia, we have engaged with over 6,000 Malaysian SMEs through our programmes which showcases our strong network and

the demand for knowledge on how to catalyse business growth.

"Through UOB FinLab's programmes, Malaysian SMEs can also leverage UOB FinLab's vast ecosystem across Asean to explore expansion opportunities overseas. With any business expansion, it can be challenging to find the right local partners to work with in a new market.

"This is why UOB FinLab has established a strong network of industry leaders, resources and tools across five key markets in the region – Singapore, Malaysia, Indonesia, Thailand and Vietnam."

On a different note, he says there are two macroeconomic trends that will continue to have a significant impact on Malaysian SMEs – the first being inflation and the other the weakening of the ringgit, he adds.

Annual inflation stood at 1.8% in October compared with 1.9% in September of this year.

He says the prolonged impact of high inflation in Malaysia since 2021 has caused a strain on local SMEs with 83% of businesses in Malaysia stating they have been affected negatively by high inflation.

Because of this, he said local SMEs have turned to digitalisation such as eCommerce platforms, cloud computing, and automation to combat rising operational costs caused by inflation.

Lung says these solutions enable companies to streamline processes, improve productivity, and gain a competitive edge.

The weakening of the ringgit is the second factor impacting SMEs. Local SMEs are experiencing higher production costs as a result of a weaker local currency. This can reduce profit margins or necessitate price adjustments that may impact competitiveness in the market, he says.

"We are also seeing local SMEs exploring strategies to expand in overseas markets to broaden business opportunities, receive payments in foreign currencies and improve profitability to mitigate the impact of a sliding ringgit.

"According to a recent report by UOB, three in four Malaysian businesses are interested in using cross-border digital trade platforms, while seven in 10 Malaysian businesses plan to explore opportunities outside Malaysia," Lung explains.