

Governance and Integrity in Malaysian Sports Startups: A Systemic Approach for Sustainable Growth

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Introduction: The Game Has Changed

The future of sports innovation in Malaysia depends not only on cutting-edge technology or athletic performance but also on how startups govern, behave ethically, and comply with the law. As Malaysia intensifies its fight against corruption through laws like the MACC Act Section 17A and promotes business excellence through the Malaysian Code of Corporate Governance (MCCG 2021), the bar has been raised.

For sports startups, particularly those receiving government grants, working with public entities, or seeking investor backing, governance and integrity are no longer optional; they are strategic imperatives.

1. Why Governance Matters Legally and Commercially

Legal Obligation: Compliance with Section 17A of the MACC Act 2009

Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act 2009 (amended 2018) has transformed the way companies in Malaysia must approach governance, specifically in relation to corruption and bribery. The corporate liability provision under this section holds companies accountable for acts of corruption committed by their employees or associates. This provision has far-reaching implications for sports startups, especially those involved in government collaborations, partnerships with private investors, or receiving public funding.

Corporate Liability for Corruption

Under Section 17A, companies (including startups) are vicariously liable for corruption committed by any person associated with the company, whether directors, employees, or agents. This liability extends to:

- **Bribery:** Offering, giving, or receiving bribes in exchange for benefits, whether in monetary form or otherwise.
- **Corruption:** Acts of dishonesty, abuse of power, or exploitation within company operations.

In essence, a sports tech startup could be held liable for any corrupt actions conducted by its employees, whether in relation to sponsorship deals, government grants, or business partnerships. This creates a significant legal risk for startups that fail to implement adequate safeguards against corrupt behavior.

Investor & Stakeholder Confidence: Navigating the Challenges of Startup Growth

In the early stages of a startup, attracting investment and securing partnerships can be a complex balancing act, particularly in industries like sports technology. Investors are increasingly turning to Environmental, Social, and Governance (ESG) metrics to evaluate the long-term viability and ethical grounding of a startup. These indicators—often considered a reflection of a company's integrity and sustainability—are no longer just buzzwords but key criteria used to assess a startup's potential for growth and stability.

Challenges for Startups in Attracting Investors and Raising Capital

- **Capital Raising:** Startups, especially in the sports technology space, often struggle to raise sufficient funds during the early stages. Investors want assurance that the startup is not only innovative but also socially responsible and legally compliant. For startups seeking venture capital (VC) or participating in crowdfunding campaigns, ensuring a robust governance framework is a major part of the pitch.
- **Crowdfunding and Series Funding:** Crowdfunding platforms are an increasingly popular way for startups to raise funds, but these platforms require startups to demonstrate strong governance practices, even at the early stage. Lack of transparency in financial reporting, ethical concerns, or failure to show ESG compliance can severely hinder the ability to attract funding, particularly for startups planning to scale through Series A and B funding rounds.

The Role of Government-linked Agencies (e.g., ISN) in Enhancing Credibility

Startups aiming to collaborate with or seek funding from government-linked agencies (GLAs), such as the Institut Sukan Negara (ISN) or Science, Technology and Innovation (STI) agencies face additional scrutiny regarding their governance practices. Many GLAs have adopted stricter compliance frameworks in line with Malaysia's National Anti-Corruption Plan and the Malaysian Code of Corporate Governance (MCCG 2021). They often require startups to demonstrate:

- Transparent financial practices, including clear reporting on funds raised through crowdfunding or venture rounds.
- Data protection measures, especially in sports tech, where athlete data is sensitive.
- Commitment to social impact, such as promoting community sports programs or improving public health outcomes through technology.

The Growing Need for ESG Compliance

As global and local investor preferences shift towards ESG-focused decision-making, startups that fail to integrate these metrics into their operations may find themselves at a significant disadvantage. This could impact market valuation during Series A or Series B funding rounds or deter investors from backing the company. For example:

- **Environmental:** Startups in the sports industry might need to assess the environmental footprint of their technology (e.g., wearable devices or facility energy use).
- **Social:** Startups that provide solutions for underserved communities or promote inclusive sports often see an increase in both investor interest and public-private collaborations.

- **Governance:** Robust internal controls, compliance with legal frameworks, and transparent reporting can provide startups with the credibility needed to attract government funding or investor backing.

The Long-Term Impact on Stakeholder Confidence

Investors, stakeholders, and the public are increasingly looking for evidence of a company's commitment to ethics and integrity. Whether it's a Series C investor or a crowdfunding community, startups that embed good governance practices from the outset are better positioned for sustainable success. This can result in:

- **Increased investor confidence,** particularly when startups demonstrate a comprehensive ESG strategy.
- **Better access to government support,** with agencies like ISN prioritizing startups that can show compliance with national standards.

2. Applying MCCG 2021 to Sports Startups

While MCCG 2021 targets public-listed companies, its core principles are scalable to startups:

Board & Leadership Integrity

- Establish an Advisory Board with at least one independent integrity/risk advisor.
- Draft a simple Board Charter and Conflict of Interest Policy.

Audit & Risk Oversight

- Implement basic controls: monthly cashflow checks, procurement logs.
- Appoint rotating internal reviewers, especially for athlete protection, IP, and data security.

Stakeholder Engagement

- Run online feedback surveys for users and partners.
- Incorporate athlete voice via youth panels or community rep boards.



Analogy: Think of your governance like a referee—visible or not, their presence ensures fair play and credibility.

3. Implementing "Adequate Procedures" Under Section 17A

While corporate liability is imposed under Section 17A, there is a critical defense available to companies: the "Adequate Procedures" defense. This defense allows a company to avoid liability if it can demonstrate that it has in place adequate procedures to prevent corruption and bribery.

The Prime Minister's Department has provided a framework for what constitutes adequate procedures, which serves as a legal shield for companies. By proving that they have taken sufficient preventive measures, companies can reduce the risk of being found liable for corrupt activities within their organization.

T – Top-Level Commitment

- Founders must champion anti-corruption publicly.
- Include anti-bribery clauses in contracts and pitch decks.

R – Risk Assessment

- Identify risks like event sponsorship, tender processes, and data sales.
- Update every 6–12 months.

U – Undertake Control Measures

- Draft Anti-Corruption and Whistleblower Policies.
- Use free SPRM toolkits for in-house training.

S – Systematic Review

- Conduct annual reviews of your internal governance practices.

T – Training and Communication

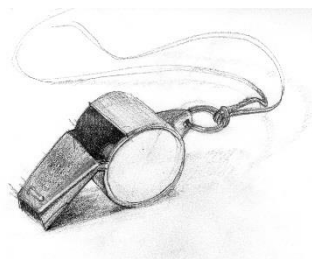
- Train new hires with short videos, infographics, or toolkits.

4. Whistleblower Policy: Silence Is Not Safety

Startups thrive on camaraderie—but that also breeds blind spots. A whistleblower policy protects your mission and reputation.

Policy Essentials:

- Confidential reporting channel (encrypted or through third-party apps like Whispli).
- Zero retaliation clause, in line with the Whistleblower Protection Act 2010.
- A follow-up process: acknowledgement, investigation, resolution.



Case Study: A notable international case involves Pav Gill, a Singaporean lawyer and former legal head for Wirecard's Asia-Pacific region. In 2017, Gill uncovered significant financial discrepancies within Wirecard, a German payment processing company. Despite facing personal and professional challenges, Gill's whistleblowing led to investigations that revealed one of the largest corporate frauds in history. His actions were instrumental in exposing the scandal, demonstrating the profound impact of whistleblower mechanisms in preventing large-scale financial misconduct

5. Innovation with Integrity: A Winning Combo

Innovation might mean performance analytics, AI-powered scouting tools, or VR training. But without governance safeguards, sports startups risk:

- Misuse of athlete or user data
- Biased algorithmic outcomes
- Unethical labor practices or exploitative contracts
- Unsubstantiated performance claims



📋 Case Study: Governance Gaps in Esports – Lessons from South Korea

In 2019, top-tier South Korean esports organization **Griffin** was fined ₩100 million (~USD 85,000) by Riot Games Korea. An internal investigation uncovered that a minor athlete, Seo “Kanavi” Jin-hyeok, had been coerced into signing an unfair contract while playing abroad. The team’s director and head

coach were also sanctioned after allegations of player abuse and governance failures came to light.

This high-profile case revealed how even prestigious teams can suffer from the absence of formal oversight structures. For startups—especially those dealing with minors, athletes, or data—a lack of ethical safeguards can destroy reputations overnight.

✅ Malaysia’s Preventive Approach

While no equivalent case has occurred in Malaysia to date, youth-focused sports startups working with public institutions like KBS or schools can take simple steps to stay ahead:

- Use a **quarterly governance log** tracking HR practices, data consent, and expenditure.
- Maintain transparent contracts with athletes and partners.
- Seek ethical reviews before deploying tech involving minors or biometric tracking.

📋 Checklist for Ethical Innovation:

- ✅ Data privacy policy aligned with PDPA
- ✅ Whistleblower channels in app or online platforms
- ✅ Product/tech reviewed by independent ethics panel
- ✅ User feedback loop integrated before full deployment

True innovation isn’t just “first to market”—it’s “first to earn trust.”

? Spotlight: ISN as Malaysia's National Sports Technology Sandbox under NTIS

The **Institut Sukan Negara (ISN)** plays a crucial role in Malaysia's tech-driven sports innovation ecosystem. As the **designated Sports Technology Sandbox under the National Technology and Innovation Sandbox (NTIS)** framework, ISN provides startups, researchers, and tech developers a **real-world testbed** to pilot, validate, and refine their innovations.

What the Sandbox Offers:

- **Live-Testing Environments**
Access to national training centers, athlete data (with consent), and high-performance facilities.
- **Regulatory Flexibility**
Some solutions may be tested under controlled exemptions from strict regulations (e.g., wearable biometric devices).
- **Scientific & Ethical Oversight**
Startups must pass basic ethical reviews and data protection criteria aligned with PDPA and governance principles before deployment.
- **Public Sector Pathways**
Successful sandboxed technologies gain a fast-track to adoption by public agencies or national sports bodies.

Why This Matters for Startups

Startups engaging with ISN's Sandbox benefit from:

- **Structured Feedback Loops** with national coaches, sports scientists, and athletes.
- **Risk Mitigation**, as ISN helps flag early governance, ethical, and data concerns.
- **Visibility** to investors and grant agencies, signaling maturity and regulatory awareness.

□ *Governance Tip:* ISN Sandbox participants are encouraged to submit a basic Governance Compliance Pack—including policies on anti-corruption, data use, and athlete welfare—before entering testing. This practice aligns with MCCG 2021 and Section 17A's "Adequate Procedures."

Conclusion: Future-Proofing Sports Entrepreneurship

Sports startups must think like professional teams—disciplined, accountable, and innovative. Governance is the playbook, integrity the training regime, and innovation the star forward.

Startups that adopt governance frameworks not only comply with the law but attract investment, scale globally, and protect their legacy.

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