Getting Ahead Of The Curve

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Getting ahead of the curve

Future-proofing businesses through corporate sustainable strategies

By StarESG Editorial Team
ESGeditorial@thestar.com.my

AS THE YEAR edges closer to 2024, the countdown towards 2030, and invariable 2050, is on the minds of those concerned with fulfilling the country's nett-zero nationally determined contribution (NDC) set out in the Paris Agreement.

But in a world where the realities of economics and politics had been fractured by the pandemic, a global inflation and two wars that have caused massive repercussions to commodity and energy prices worldwide, attention on ESG-related topics would normally have taken a backseat.

However, the conclusion of the United Nations Framework Convention on Climate Change's 28th meeting of the Conference of Parties (COP) may still renew the focus on ways to move sustainability action forward.

To gauge where our country stands within the ESG landscape, and how current and upcoming issues can affect the way sustainability is practised by businesses, the StarESG editorial team reached out to Deloitte Malaysia chief executive officer Yee Wing Peng, Ernst & Young Consulting Sdn Bhd (EY) Malaysia Climate Change and Sustainability Services (CCaSS) and APAC Decarbonisation Solution leader and partner Arina Kok, KPMG in Malaysia sustainability advisory head Phang Oy Cheng, and PwC Malaysia Asia Pacific Sustainability, Biodiversity director Perpetua George on what to expect in 2024.

Emerging trends against the backdrop of global patterns

Transitioning to green energy: The status report of the recently concluded COP28 saw around 130 countries committing to the Global Renewables and Energy Efficiency Pledge.

Together, they have declared their intent to work collaboratively and expeditiously in the pursuit to triple the world's installed renewable energy (RE) generation capacity to at least 11,000 gigawatt (GW) by 2030, while considering various starting points and circumstances of nations.

They have also committed to collectively double the global average annual rate of energy efficiency improvements from around 2% to more than 4% yearly until 2030, as well as putting the principle of energy efficiency as the "first fuel" at the core of policymaking, planning and major investment decisions.

In that respect, the efforts to green energy are picking up speed, seeing as we only have about seven more years to reach those goals.

Closer to home, the creation of the new Energy Transition and Public Utilities Ministry as part of the recent cabinet reshuffling further underscored the government's focus and efforts on RE.

Experts have opined that green hydrogen is the country's ideal option for clean energy production; in the long run, the country will enjoy the benefits of economies of scale that will exert downward pressure on the overall cost of energy production for businesses, says Yee.

The ability of green hydrogen in decarbonising the country's energy, materials and infrastructure sectors that have been traditionally reliant on fossil fuels is further underscored by the Malaysian Investment Development Authority (Mida).

Yee states that there are also collaborations, especially with private sector players, taking place with promising progress like the partnership between Petronas and Sarawak Energy in the commercial generation and exploration of green hydrogen.

"Public policy shifts such as the lifting of the RE export ban would be a positive move as they would provide competitively priced clean energy for consumers, address energy security concerns, create jobs, diversify export opportunities and accelerate the national energy transition.

"Malaysia is projected to enjoy between RM49bil and RM61bil in additional Gross Domestic Product (GDP) contribution and RM12.1bil in revenue gains from the hydrogen market by 2030.

"The government's proposed Hydrogen Economy Technology Roadmap (HETR) is set to provide 45,000 new job opportunities by 2030 and reduce Malaysia's greenhouse gas (GHG) emissions by 0.4% to 1.3% by 2030," Yee points out.

According to Kok, the six energy transition levers — RE, energy efficiency, bioenergy, hydrogen, carbon capture, utilisation and storage (CCUS) and green mobility including electric vehicles (EV), outlined in the National Energy Transition Roadmap (NETR), are anticipated to experience significant growth in the Malaysian business landscape in 2024.

Further to that are the EV-related provisions made in Budget 2024, announced by Prime Minister Datuk Seri Anwar Ibrahim, to encourage greater adoption of EVs by Malaysians.

"Globally, there is an anticipated growth in the sales of EVs in 2024. For example, with a favourable policy environment, the sales of electric cars and vans in the US are projected to gain momentum throughout the remainder of this decade, ultimately achieving the government's target of 50% by 2030," says Kok.

ESG disclosure and reporting: With rising concerns from investors, banks and customers on businesses' ESG practices, the demand for transparency on ESG performance, target, strategies and value created for customers, employees and broader society will push leaders to embrace critical mindset shifts and deliver beyond profits. Recognising the need for ESG capability development, Budget 2024 also allows tax deduction of up to RM50,000 per year of assessment for ESG-related expenditure conducted under the purview of the Inland Revenue Board of Malaysia.

"We are also seeing an increasing alignment of ESG reporting standards globally and the trend will intensify, reducing the ambiguity and inconsistency that once characterised this field, as harmonised reporting frameworks enable companies to navigate the complex web of expectations by regulations, customers and banks seamlessly while fostering a more equitable global marketplace," Kok points out.

She adds that the Securities Commission Malaysia, with endorsement from the Finance Ministry, has set up a national level Advisory Committee on Sustainability Reporting (ACSR) to support the implementation of the IFRS Sustainability Disclosure Standards (ISSB Standards) in Malaysia.

The ACSR will look into the enablers that would support the implementation of the ISSB Standards in Malaysia including the approach and timeline for implementation, taking into careful consideration market readiness to meet the reporting requirements.

To address reliability of the information and mitigate concerns of greenwashing, the ACSR will also discuss matters related to assurance of sustainability statements.

"Miti will provide a framework to mainstream ESG elements in the development of the manufacturing sector, which will include four main components: ESG standards, financial support and incentives, capacity building and market mechanisms including carbon trading and carbon pricing.

"In October 2023, Miti launched the i-ESG Framework to prepare Malaysia's manufacturing sector for embracing ESG principles and introduced tools like the ESG Readiness Assessment (i-ESGReady) and the i-ESG Starter Kit (i-ESGStart) in Phase 1.0.

"These resources help companies understand and evaluate their current ESG adoption level and provide a step-by-step guide for sustainability reporting," adds Kok.

Echoing similar sentiments is Phang, who points out that the gradual mainstreaming of ESG principles into the daily business management of Malaysian companies has become increasingly evident over the past few years.

This is underscored by the nation's adoption of guidelines such as the Global Reporting Initiative, Task Force on Climate-Related Financial Disclosures, and the International Sustainability Standards Board (ISSB) standards.

Phang highlights that a major trend poised to impact local companies will revolve around the demand for data accuracy, granularity and reliability.

"Investors are now seeking clarity on the nett-zero and decarbonisation initiatives. They're assessing how these strategies impact business sustainability and the required invest-

ments in carbon adaptation technologies from an investment standpoint. Hence the need for reliable supporting data is crucial."

Next year will also see a heightened emphasis on corporations in Malaysia to move towards double materiality reporting, wherein both sustainability and financial implications are considered in the ESG risk evaluation, Phang stresses.

"I anticipate a shift towards more comprehensive risk management strategies undertaken by corporations, marked by the increasing integration of ESG risk factors into their business enterprise risk assessments.

"The issuance of the Corporate Sustainability Reporting Directive, Carbon Border Adjustment Mechanism and Corporate Sustainability Due Diligence Directive, will influence how local companies manage crucial aspects such as product carbon footprint, human rights and labour management, sustainability financial management and reporting, as well as assurance processes.

"This will be particularly profound for companies with products imported into the European Union (EU) or those with subsidiaries within the EU," says Phang.

Biodiversity risks: Biodiversity and nature are gaining attention from companies and governments, but many businesses are still figuring out the risks involved, says George.

"Malaysia has a unique biodiversity ecosystem and its dependence on nature and its associated ecosystem services make it among the most vulnerable economies to climate change.

"On a macro scale, the region will be significantly impacted by nature loss, with 54% of Asia Pacific GDP highly or moderately dependent on nature.

"2022 data shows that Bursa Malaysia has US$239bil in market capitalisation for high and moderate nature dependent sectors, which represents 65.3% of Bursa's entire market value.

"Even without direct exposure, businesses may face significant risks in their investments or supply chains. As cited in a Bank Negara Malaysia Report, Malaysia faces a potential 6% loss of GDP by 2030 from the collapse of Malaysia's forestry and fisheries ecosystem services."

George emphasises that it is important to understand the link with nature for managing business risks effectively as it is difficult to do so without first understanding the nature-climate nexus.

"Businesses that understand their relationship with nature can begin developing dual responses and risk mitigation processes such as embedding nature-based solutions into their climate transition plans."

Emerging frameworks such as the Taskforce on Nature-related Financial Disclosures— a market-led and science-based initiative supported by national governments, businesses and financial institutions worldwide— can help businesses navigate this complex issue.

Nature-based solutions and carbon markets are expected to grow in Malaysia given the launch of the Bursa Carbon Exchange (BCX) and appetite for credible and value-added offsets globally among corporates.

The push for businesses to decarbonise as a response to climate change will continue to grow stronger in 2024, George highlights, citing PwC's Net Zero Economy Index 2023 (Asia Pacific edition) that Malaysia's current decarbonisation rate is at 2.5%, far behind what is required to meet NDC's target at 7.2%.

This push is also driven by evolving policy frameworks such as the NETR as well as greater transparency with the introduction of new reporting standards such as the International Sustainability Standards Board's IFRS S1 and IFRS S2.

"If made mandatory, these standards will compel businesses to enhance transparency in sustainability disclosures."

She highlights the growing recognition of the imperative for an inclusive and just transition, taking into consideration workforce needs, supply chain sustainability especially the support needed for micro, small, and medium-sized enterprises to transition, as well as the society and community as a whole.

Efforts to prevent further temperature increases by reducing GHG emissions must continue, coupled with an equal focus on adapting to the climate realities of today, including opportunities for nature-based solutions to help meet climate commitments.

"Preparing for physical climate risks can be a catalyst for companies' innovation and growth. However, Malaysian companies must first form a clear picture of their vulnerabilities and make a plan to manage them," George stresses.

Tailoring Malaysian businesses for sustainability

In light of the rapidly evolving sustainability scene, it is essential for Malaysian businesses to tailor their practices while taking into account macroeconomic factors and the unique context of the country.

Managing the transition: Emphasising that Malaysian companies need to set a solid foundation for high quality carbon emission data, Yee says the foundation of good data is an important prerequisite to ensure players pay their fair share which aids in preventing inequity in taxation.

"Most companies here have just embarked on their climate accounting journey with only a few players tracking their Scope 3 emissions (indirect carbon emissions emitted through upstream and downstream supply chains).

"They should also establish their own market awareness programmes that ensure the business case for transitioning to renewable energy as the key to promote behavioural change and crucial industry buy-in," Yee says.

Digitising the business: Kok calls on businesses to grab the opportunity to enhance their technological infrastructure as well as increase sustainability and competitiveness, given that Budget 2024 will see corporate initial allowance for information and communication technology equipment and software be raised from 20% to 40% starting from YA2024.

"Digitising assets and implementing cloud adoption for efficient storage, easy access, paper waste reduction is one of the sustainable practices that enhances security measures for sensitive materials," says Kok.

She shares that RHB Banking Group (RHB) and Tenaga Nasional Berhad (TNB) have forged a collaboration to expedite the adoption of renewable energy and energy efficiency solutions among small and medium enterprises (SMEs) and individuals.

"With collaboration and sustainability roadshows conducted in major cities, TNB will provide technical advice on energy efficiency and renewable energy solutions, including supplying and installing solar PV systems to SMEs— prioritising RHB's SME customers and TNB's clients and business partners.

"RHB will offer green financing solutions, which comprises financing programmes in SME Green Renewable Energy, SME Green Construction, SME Green Commercial Property, SME Green Working Capital and SME Green Capital Expenditure," says Kok.

Sustainable integration: Phang recommends businesses to pivot towards an integrated sustainability management framework which helps ensure ESG factors are considered from an all-of-business approach (integration into daily business practices, risk and financial management).

"Businesses can begin by thoroughly scrutinising data veracity and verify that all reported data undergo checks and monitoring from the point of generation to its collation and reporting.

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Arina Kok
Malaysia Climate Change and Sustainability Services (CCaSS) and APAC Decarbonisation Solution leader and partner
Ernst & Young

Phang Oy Cheng
Sustainability Advisory head
KPMG in Malaysia

Yee Wing Peng
Chief executive officer
Deloitte Malaysia

Perpetua George
Asia Pacific Sustainability, Biodiversity director
PwC Malaysia

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"Start looking at the financial reporting of ESG matters and how this can be streamlined to ensure necessary data is available for financial impact analysis and reporting.

"Integrate ESG material matters as well as their financial implications into your business strategies," says Phang.

Long-term planning: George highlights that many companies are at risk of losing out significant long-term financial benefits as they continue to view sustainability and decarbonisation through the short-term lens of regulatory compliance.

She says integrating sustainability into a company's strategy, operating model and processes can lead to huge potential to create value, while protecting value from increasing ESG related risks, such as flooding.

"The workforce is an integral part of this, with key considerations including identifying skills gaps, providing accessible upskilling and reskilling opportunities.

"Doing so builds on the efficiencies of a holistic approach to sustainability rather than addressing each topic in siloes."

She adds that a just transition is critical to include vulnerable communities in the journey towards a lower carbon future, in addition to ensuring benefits and costs of climate action are distributed fairly.

"The Department of Statistics Malaysia had reported that micro-small-to-medium-sized entities (MSMEs) contributed to 48.2% of national employment and made up 97.4% of overall establishments in Malaysia in 2022, making them a crucial part of the country's net zero transition.

"These MSMEs require substantial support to effectively make this transition, an area where larger businesses can step in to help them make necessary adjustments and reduce Scope 3 emissions through their value chain."

George also suggests companies to start investing in nature-based solutions, whereby the power of nature is incorporated into operations. By doing so, it can help in lowering emissions, increase resilience and reduce disaster risk, while providing environmental and social benefits that pay off financially.

"The UN estimates that nature-based solutions have the potential to remove up to 12 gigatons of CO2 equivalent per year, boosting climate resilience and providing an additional US$2.3tril in productive growth to the global economy," says George.

Strategies to successfully navigate evolving ESG trends

As global economics and invariably, politics, impact the livelihoods of businesses, big and small, decision-makers in any enterprise or institution would undoubtedly need to circumvent rising eventualities should they arise.

Being at the forefront of this change, Bursa Malaysia has already rolled out a mandatory ESG reporting platform for listed companies on Dec 4 this year.

In that sense, ESG reporting is encouraged, even for small and medium sized enterprises as their transparency and accountability would make them more attractive for financial assistance.

But as ESG trends are closely affected by macroeconomic factors that can shift significantly according to socio-economic and political factors, as well as the environment, learning how to adapt is crucial.

Competent workforce: Yee points out that companies should develop strong human capital in order to prepare for changing trends in ESG.

"A general lack of human capital has contributed to the relatively higher cost for deployment and maintenance of RE in Malaysia," he elaborates.

He also suggests attracting more advanced players into Malaysia to allow the transfer of technology and knowledge to occur.

This should be further supported by a robust policy to appeal to such players.

He adds that ESG should also be recognised as a C-Suite key performance indicator, given that it is a framework for risk mitigation and a driver of financial success.

"The three dimensions of ESG — environment, social and governance — indicate a company's resilience and the degree to which it is future-proof in the context of growing stakeholder demands for sustainability," Yee explains.

Linking ESG-related key performance indicators to remuneration may include a balanced scorecard, a modifier that brings about multiplier impact or a minimum trigger for bonus or incentives to be paid, commonly known as underpin.

The new normal: Phang points out that Malaysian companies must shift their perspectives on ESG management, recognising it not only as a compliance matter but as an indispensable facet of business management that is a concern of their customers, collaboration partners, regulators and investors.

"Businesses must also ensure the efforts on managing ESG-related risks mirror the attention given to risks related to their organisation and products," she states.

"Emphasising efficiencies and minimising impact should be the core focus."

She reminds that as ESG management has now entered the mainstream, which demands businesses to be cognisant of its significance, the failure to meet its standards can result in substantial business and reputational repercussions.

"It is now very much part of a company's value creation journey, demanding a shift in how it's perceived and treated accordingly."

George reminds that sustainability is a long-term game that when done well, can yield near-term benefits and return on investments.

"Navigating the expansive sustainability landscape, which includes aspects like adaptation, nature risk and circular economy, includes strategically aligning sustainability actions to realise co-benefits.

"Integrating your company's climate adaptation and biodiversity efforts with nett-zero programmes can yield significant advantages."

She gives the example of agroforestry, which is the affordable land management system of planting trees on the same land as crops, resulting in ecological and economic advantages.

As it removes GHG, it also brings adaptive benefits, which include improving water retention and enhancing soil diversity.

Anticipating, adapting to change: In line with the paradigm shift towards ESG, Kok says organisations should prioritise staying informed and adapting to this evolving landscape by closely monitoring local and regional ESG regulations, market trends and stakeholder expectations relevant to their operational context.

"Staying regularly engaged with industry events and ESG networks will ensure organisations are up-to-date and able to adjust their strategies accordingly."

She suggests that a way for companies, especially SMEs, to start their ESG journey is to conduct materiality assessments.

This would identify the most important sustainability issues pertaining to their operations, stakeholders and industry.

"These assessments provide insights into the key ESG risks, benchmarks against competitors and uncover opportunities that impact business performance."

She cites the example that companies exporting carbon-intensive products to the EU started reporting emissions in October 2023 for six sectors: cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen.

"To ensure that Malaysian businesses remain internationally competitive, local exporters must start preparing their operations to manage relevant carbon price regimes, while making certain that goods are produced with greater carbon efficiency," she says.

Kok adds that as the global economy embarks on decarbonisation strategies, Malaysian businesses need to start managing the EU Carbon Border Adjustment Mechanism or any upcoming carbon tax regulation imposed by other trade-partner jurisdictions to remain relevant and competitive.

Actionable accountability: George notes that although many companies have set their nett-zero targets, they are behind on operationalising them.

"They need to take double materiality considerations into account and mobilise every business function towards achieving nett-zero transformation," she says.

"We are at risk of being perceived as greenwashing by the market, if we don't act promptly to realise commitments made."

From production, procurement and finance, to marketing, technology and HR, everyone needs to transform how they operate, process and manage people and resources.

The longer the commitment-action gap persists, the greater the risk of companies being perceived to be engaging in greenwashing practices.

Yee concurs, saying that companies must also be held accountable for their actions and commitments towards sustainability.

He says this included efforts by various private and public organisations to promote transparency, encourage independent verification, and establish clear standards and regulations to prevent misleading or false claims of environmental sustainability.

"Consumers can play a role by educating themselves and scrutinising the sustainability claims made by companies."

George also advises prioritising progress over perfection: "Sustainability is a long term game but done well, can yield near term benefits and return on investments."

"To thrive in an unpredictable environment characterised by constantly evolving standards, regulations, frameworks and expectations, businesses require a shift in mindset — away from expectations of certainty and towards one that embraces a consistent, incremental and fluid approach."

She says this will give organisations the agility and resilience to adapt along the way towards their overall nett-zero goals.

Businesses can traverse the ever-changing ESG landscape with sound strategies while contributing positively to their overall sustainability efforts