THE OVERVIEW OF ENVIRONMENT, SOCIAL, AND GOVERNANCE PRACTICES AMONG MALAYSIAN COMPANIES

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ABSTRACT

This article explores Malaysia's burgeoning reputation as a promising hub for ESG investments, propelled by the rising interest of investors, escalating corporate endeavours, and a favourable legal framework that promotes sustainable business practices. This article will also examine the initiatives taken by the Malaysian government to guarantee that Malaysia is on par with global players in terms of ESG practices. The essence of this study is based on articles found in newspapers, companies' websites, and reports issued by the Department of Statistics Malaysia (DOSM), and the Department of Environment Malaysia (DOE). There is a growing interest among both foreign and domestic investors in engaging in Malaysia's green economy by means of ESG investments. This interest stems from the desire to address substantial environmental challenges and generate sustainable returns, considering the escalating market apprehensions around sustainability challenges and risks. By focusing on the unique context of Malaysian companies and their challenges and opportunities, this study could provide valuable insights into the intersection of ESG in the country.

Keywords: Environment, Sustainability, Governance, Malaysian practices, ESG

1.0 INTRODUCTION

The incorporation of environmental, social, and governance considerations into the operations and decision-making procedures of a business is referred to as ESG practices. Determining a company's sustainability and long-term success are factors considered to be crucial. Organizations incorporate ESG practices into their business strategies with the conviction that doing so is advantageous and will contribute to the enhancement of their overall performance (Popov & Makeeva, 2022).

ESG factors demonstrate opportunities and threats, thereby assisting stakeholders and shareholders in general to make informed business decisions (Buniamin, 2020). The practices encompass an organization's social responsibilities towards diverse stakeholders, its environmental footprint, and the efficacy of its governance framework. Organizations that place a high value on ESG practices strive to reduce their ecological impact, foster social fairness and inclusivity, and uphold robust governance systems that guarantee transparency and responsibility (Miralles-Quirós et al., 2019). In recent years, there has been a growing recognition among investors and stakeholders of the significance of sustainable and responsible business practices, which has led to an increased emphasis on ESG practices. The company endeavors to generate value for all stakeholders and foster a more sustainable and equitable society through the incorporation of ESG practices into its operational framework. The ESG practices are not only important for companies' reputations and social impact but also have financial implications. Companies that prioritize ESG practices can potentially achieve higher financial returns and reduce risks (Chen et al., 2023).

The urgency to study ESG arises from escalating climate change, social inequality, and governance challenges. Companies face increasing pressure from stakeholders to adopt sustainable practices, which can enhance long-term profitability and resilience. Understanding ESG factors is crucial for mitigating risks and driving positive change in today's rapidly evolving global landscape. Hence, the objective of this paper is to address the interest that arises from the intention to tackle significant environmental issues and produce sustainable returns, given the increasing market concerns over sustainability problems and dangers. This study aims to offer significant insights into the convergence of ESG within the unique context of Malaysian companies, addressing their challenges and potential.

The rest of the article is organised as follows: ESG practice worldwide and the effects of ESG are presented in the next section. The ESG practices in Malaysian companies are detailed in the following section. Final remarks and future research directions are presented in the last section. The essence of this conceptual paper is based on articles found in prior research supported by articles from the newspapers, companies' websites, and reports issued by the Department of Statistics Malaysia and the Department of Environment Malaysia. However, this study is only limited to searches in 2022.

2.0 ESG PRACTICE WORLDWIDE, ASIA, AND SOUTHEAST ASIA

ESG practices have gained significant attention worldwide. In recent years, there has been an increased focus on ESG practices globally. This shift in focus is driven by the belief that incorporating ESG factors into capital markets not only promotes sustainability but also brings financial benefits. According to research from Miralles (2019), conducted on commercial banks listed on twenty different stock markets throughout 2002-2015, it has been found that the value relevance of ESG performance is higher for banks from common law countries and after the global monetary crisis.

ESG practices are being adopted by companies worldwide, with a particular focus on Asia and Southeast Asia. Regulatory bodies in various countries have implemented measures to promote ESG adoption among corporate businesses. These measures are aimed at enhancing transparency, accountability, and sustainability in business operations (Ismail et al., 2022). In Norway and Denmark, the government has introduced regulatory amendments and minimum requirements for ESG reporting.

In Asia, the importance of sustainable finance has been recognized by the government and financial institutions have been requested to incorporate ESG factors into their business strategies (Adam & Adhariani, 2018). In Southeast Asia, there is a growing interest in ESG practices and regulations. This is clear in Malaysia, where the Securities Commission has introduced ESG reporting guidelines for listed companies. These guidelines cover areas such as corporate responsibility, environment, workplace, community, and marketplace. Furthermore, Malaysia has also introduced the ESG index, which measures the performance of companies with good ESG practices.

Singapore, a leading global financial hub, has been actively promoting environmental, social, and governance practices among businesses. The government of Singapore has recognized the importance of sustainable finance and has requested financial institutions to incorporate ESG factors into their business strategies. This includes promoting responsible investing, encouraging transparency, and disclosure of ESG information, and providing support and guidance for companies to adopt sustainable practices. In addition, Singapore has implemented various initiatives and platforms to promote ESG practices (Miralles-Quirós et al., 2019). These initiatives include the launch of the Sustainability Reporting Guidelines by the Singapore Exchange, which encourages listed companies to show their ESG policies and performance, and the introduction of the Green Bond Grant Scheme to facilitate green bond issuances. Another key development is the requirement for SGX-listed firms to provide annual sustainability reports on a comply or explain basis since 2016.

In Japan, the Financial Services Agency has published guidelines for ESG investing, encouraging asset owners and asset managers to incorporate ESG factors into their investment decisions and strategies. In the Asia-Pacific region, including Southeast Asia, there is growing recognition of the importance of ESG practices.

Overall, the practice of ESG is gaining momentum worldwide, with a particular focus on Asia and Southeast Asia. However, it is important to note that the level of ESG disclosure and adoption still varies across regions and countries (Pratama et al., 2022). Asia and Southeast Asia have shown a growing interest in ESG practices and regulations. This growing interest is reflected in Malaysia, where the Securities Commission has introduced ESG reporting guidelines for listed companies.

3.0 THE EFFECTS OF ESG

Since investors are progressively including ESG factors into their mandatory evaluation of commercial and economic models, there has been there has been increasing pressure from stakeholders for companies to adopt sustainable practices and adequately disclose their ESG performance. Prior studies have found that ESG integration has been observed as a catalyst for companies' competitive advantage (e.g., Michelon et al., 2016; Nyuur et al., 2019; Zhao et al., 2019) by generating additional intangible value to ensure sustainable performance (Du et al., 2011; Flammer, 2015; Flammer & Luo, 2017), such as improving a firm's reputation, promoting a social image and improving customer loyalty (Kotler & Lee, 2004). Alongside the benefits of ESG practices, the disclosure of ESG practices contributes to enhancing stakeholder engagement (De Falco et al., 2018).

As a result of the belief that companies with strong ESG practices are more positioned for long-term success and can generate sustainable returns, an increasing number of investors are incorporating ESG considerations into their investment decisions. In addition, regulatory bodies and stock exchanges globally are increasingly mandating increased disclosure and transparency regarding ESG practices. This underscores the criticality of these considerations within the realm of commerce. The ESG practices have financial ramifications in addition to their significance for the reputations and social impact of businesses (Popov & Makeeva, 2022). Potentially achieving greater financial returns and mitigating risks are businesses that prioritise ESG (Miralles-Quirós et al., 2019). Companies can improve their overall corporate performance, recruit socially responsible investors, and enhance their market reputation by incorporating ESG practices into their operations (Pham et al., 2022). ESG practices have evolved into essential components of business strategies, aiding organisations in the enhancement of their overall operational effectiveness, the effective management of opportunities and risks, and the fulfilment of growing investor, stakeholder, and regulatory requirements (Ismail et al., 2022).

Non-compliance with their ESG can have a significant impact on companies in Asia.

Failure to follow ESG practices in Asia can lead to various negative consequences for companies (Annisa & Hartanti, 2021). These consequences may include reputational damage, loss of investor confidence, decreased market value, regulatory penalties, lack of investor trust and interest, resulting in a decline in share prices and market value, and potential legal risks (He et al., 2021; (Miralles-Quirós et al., 2019; Kamaludin et al., 2022). This can result in a loss of customers, investors, and business opportunities. Moreover, non-compliance with ESG regulations can also lead to legal and regulatory consequences. According to Jinga (2022), companies may meet legal action for not adhering to ESG standards. Additionally, non-compliance with ESG standards can negatively affect a company's financial performance disclosure and its effect on the firm's performance (Atan et al., 2016). Non-compliance with ESG practices can also result in potential harm to the environment and society, which may further affect a company's long-term sustainability and social license to operate (Rahman & Alsayegh, 2021).

4.0 THE ESG PRACTICES IN MALAYSIAN COMPANIES

Considering the mounting global demand for corporations to integrate sustainability principles into their operations, Malaysia is not exempted from this prevailing worldwide pattern of adopting initiative-taking measures to enforce obligatory ESG reporting. Currently, voluntarily, ESG reporting is rising, not just for publicly listed companies but also for small and medium-sized enterprises (SMEs). Malaysia is currently accelerating its ESG initiatives in response to the increasing emphasis from foreign and domestic investors (Ismail et al., 2022). Driven by critical needs, the Malaysian government is committed to achieve an emission reduction of 45% by 2030 under its 12th Malaysia Plan. For Malaysian budget 2024, the government has allocated RM2 billion to encourage the transition towards a low-carbon economy. From here, RM900 million has been allocated to the small and medium enterprises for the optimization of resources used, waste reduction, streamlining of supply chain, and promoting workplace safety. To ensure the long term sustainability of ESG programs and initiatives, companies that are engaging with ESG programs are given tax exemptions and deductions up until 2027.

Malaysian companies also acknowledge the significance of incorporating ESG practices into their operational frameworks to secure enduring prosperity, adaptability, and sustainable expansion. The adoption of ESG practices in Malaysian companies is crucial for their overall corporate performance, risk management, stakeholder satisfaction, and long-term sustainable profitability (Halid et al., 2022). The importance of ESG practices in Malaysian companies lies in their ability to contribute to long-term success, resilience, and sustainable growth (Kamaludin et al., 2022). The following initiatives and practices are taken by companies in Malaysia into their operations for long-term success, resilience, and sustainable growth.

1. Transition to low-carbon energy generation

Malaysia's energy generation has historically been heavily dependent on coal, as evidenced by the nation's current renewable energy (RE) capacity of merely 25%. To fulfil the energy requirements in a sustainable manner, Malaysia aims to achieve a 40% contribution from renewable energy sources by the year 2035. Significantly, both public and private sector investors have been diverting their investments from coal-fired power generation to renewable energy (RE) developments, with a specific focus on:

i) Renewable energy sources, such as solar photovoltaic (PV) and bioenergy, since there is abundant biomass sourced from the palm oil industry and substantial annual solar irradiance.
ii) IoT-based energy recycling, monitoring, and efficiency solutions are provided by energy efficiency and management.
As of 2022, five (5) lead investors have ventured into solar and biogas operations with a total installed capacity of more than 2,206 MWp with an estimated total investment of USD166 million.

2. Waste management and recovery

The Ministry of Housing and Local Government in Malaysia has implemented policies and roadmaps, such as the proposed implementation of the Extended Producer Responsibility (EPR) principle, to encourage trash reduction activities and aim for a 40% recycling rate by 2025. Although Malaysia's recycling rate of 33% is lower than that of other countries in the region, there is a noticeable increase in interest and investment in managing scheduled trash, e-waste, municipal waste, and sustainable packaging. As of 2022, local governments partnered with corporates such as SK Ecoplant, Berjaya Group, Malakof Corporation, and Blue Planet to promote waste reduction initiatives and proper waste management by waste generators.

3. Flood mitigation and water supply

After significant floods in late 2021 and early 2022, Malaysia suffered financial losses amounting to USD 1.4 billion and interruptions in the water supply due to industrial pollution produced by the downtime of the treatment facility. In response to the increasing severity and frequency of floods in Malaysia, the government is anticipated to initiate six flood mitigation projects, as outlined in the amended Budget 2023. In recent years, investors have shown a growing interest in sustainable and technology-enabled solutions, such as wastewater treatment and monitoring technology, and have been allocating more funds towards these investments. Four (4) main areas have been given priority to tackle the issues namely water treatment, flood mitigation, non-revenue water, and sewage treatment which involve most frequently affected areas in Selangor, Pahang, and Johor. As of 2022, the estimated total contract value for the projects is USD1 billion.

4. Food security

The food exports in Malaysia experienced an annual growth rate of 15%, resulting in a total of USD10.1 billion in 2022. Nevertheless, the value of food imports was far higher, reaching a total of USD17.2 billion. This might be linked to inadequate investments in the agro-food sector in the past and a deficiency in technical innovation. There are significant opportunities to improve the agriculture industry to handle the increasing export volumes and reduce dependence on food imports. This presents opportunities for both international and domestic investors to explore agricultural innovations, such as smart farming, biofertilizers, animal feeds and monitoring technologies. As of 2022, an estimated USD70 million worth of investment has been made in these areas.

5. Reduction of carbon emissions

Malaysia is currently experiencing a process of transformation in its mobility sector. By 2040, the electric vehicle (EV) sector is projected to make up 38% of the overall industry volumes. For this, South Korea is a prominent investor in Malaysia's ecosystem for producing EV batteries and components, hydrogen, fuel cells, and EV charging.

5.0 CONCLUSIONS

The success of ESG in Malaysia depends significantly on effective public and private partnerships. Despite economic uncertainties, ESG continues to be an integral strategy for publicly listed companies. Malaysia can gain valuable insights from the members of a global community in terms of waste management. This includes the implementation of industry regulations and guidelines as well as the establishment of impactful community education programs. These initiatives aim to promote the adoption of cohesive waste management practices among businesses, households, and communities.

Table 1. Initiatives taken by other countries.

Countries	Initiatives
France	• Adopted a comprehensive Anti-waste Law in 2020 from a linear to a circular economic model. • The first country to ban the destruction of unsold non-food products. • The first country to introduce a mandatory repairability index on electric and electronic products.
Japan	• Introduced the Basic Act for Establishing a Sound Material-Cycle Society in 2000 to ensure the implementation of the 3R (reduce, reuse, and recycle practices. • Incentivised the collection of PET bottles • Unveiled a Green Transformation Basic Policy in December 2022: an investment roadmap costing Y150 trillion of public-private financing over the next 10 years to help various industrial sectors achieve carbon neutrality and contribute to energy transition in Asia.
Australia	• To reduce total waste generated in Australia by 10% per person by 2030. • To achieve an 80% average resource recovery rate from all waste streams following the waste hierarchy by 2030. • To phase out unnecessary plastics by 2025 and halve the amount of organic waste sent to landfills by 2030.
Sweden	• Preparation for reuse, material recycling, and the recycling of non-hazardous construction and demolition waste, except for soil and stone, must amount to at least 70% by weight annually until 2025. • The reusable proportions of packaging placed on the market in Sweden for the first time is to increase by at least 20% from 2022 to 2026 and by at least 30% from 2022 to 2030. • Food waste is to be reduced so that total food waste is reduced by at least 20% in weight per capita from 2022 to 2025.

Source: Ellen Macarthur Foundation, World Economic Forum, Japan Times, Climate Integrate, Australian Government: Department of Climate Change, Energy, the Environment and Water, European Environment Agency.

Moving forward, there is a need for greater emphasis on ESG practices in Malaysian companies. These practices play a crucial role in addressing sustainability issues and meeting the expectations of stakeholders. By integrating ESG principles into their business strategies, Malaysian companies can contribute to long-term value creation, enhance their reputation, and foster trust among investors and society. Furthermore, ESG practices have been found to positively influence a company's financial performance (Ismail et al., 2022). Companies increasingly recognize the profound impact of ESG practices on their long-term success and resilience (Ahmad et al., 2021). Moreover, the newly regulated mandatory ESG practices in Malaysia require companies to follow regulations, leading them to engage in ESG activities and show their ESG practices (Ismail et al., 2022). These regulatory bodies, along with the guidance provided by Bursa Malaysia and the Malaysian Code of Corporate

Governance, are important drivers for ESG adoption in Malaysian companies. Implementing ESG practices is not only beneficial for the company's financial performance but also helps in keeping a positive relationship with stakeholders. In conclusion, there is a growing recognition of the importance of ESG practices in Malaysian companies (Ahmad et al., 2021).

6.0 SUGGESTION FOR FUTURE RESEARCH

The existing literature on corporate governance and environmental, social, and governance (ESG) practices in Malaysia provides valuable insights into the progress and challenges faced by Malaysian companies. However, there are several areas that warrant further research to gain a more comprehensive understanding of this domain.

An area that warrants additional examination is the degree to which Malaysian companies have harmonized their ESG practices with global standards and best practices (Mohamad & Sori, 2011). Although Malaysia has made substantial progress in building a strong corporate governance framework, it is uncertain to what extent this framework is effectively implemented across all industries and firm sizes (Liew, 2007).

Furthermore, further investigation is required to examine the determinants that encourage or hinder the implementation of Environmental, Social, and Governance (ESG) practices among companies in Malaysia. This may involve an analysis of the influence of regulatory measures, institutional support, and cultural influences on shaping corporate behaviour.

Moreover, prospective research endeavours could investigate the correlation between ESG performance and financial outcomes for organizations in Malaysia. Such analysis would yield significant perspectives on the economic justification for sustainability and contribute to the decision-making procedures of company managers.

Another area of interest is the impact of ESG practices on stakeholder engagement and perceptions. Understanding how different stakeholders, such as investors, employees, and local communities, perceive and respond to a company's ESG initiatives could inform more effective stakeholder management strategies.

By addressing these research gaps, future studies can provide valuable insights to policymakers, corporate leaders, and other stakeholders, ultimately supporting the continued advancement of sustainable and responsible business practices in Malaysia

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