WHERE DOES CORPORATE MALAYSIA STAND ON SUSTAINABILITY?

What responsible business practices has your company implemented? Does your core business strategy give weight to the triple bottom line of people, planet and profit? Put these questions to Malaysian businesses and the most likely answer would be that they have some form of corporate social responsibility (CSR) initiative in place.

Responsible business practices, while nice to have, are not quite front and centre when it comes to their operations and strategies. As a preface, it is not that Malaysia's corporates and small and medium enterprises (SMEs) are doing nothing to operate sustainably. It is just a bit patchy at the moment.

Andrew Chan, who leads PwC's sustainability and climate change practice for Southeast Asia, observes that most companies in the country already have in place some form of policy on sustainability, involving staff policies, vendor management, health and safety regulations and environmental standards.

However, the challenge is that many companies do not have the full picture of the effort and investment they are putting into sustainability initiatives because they are not being managed like other business investments. "For other business investments, you track your assets. With CSR or sustainability, people don't see it as a tangible 'investment'. So, that is the lens we are trying to shift with the more progressive companies. There is value to be created from sustainability, so manage it like a business issue," says Chan.

Many companies, particularly among SMEs, still perceive sustainability as a cost and not a "must have". There is a fairly prevalent perception in Malaysia that sustainable practices are costly and not very profitable.

Datuk Tan Say Jim, president of the Business Council for Sustainability and Responsibility Malaysia, prefers to take a different view. He is a firm advocate of ensuring that companies remain good global citizens by placing as much emphasis on people and planet as they do on profit.

Tan, who is group CEO and managing director of Iris Corp Bhd, stresses that corporates must play a role in protecting the environment and society. "We cannot just depend on the government to do so. The private sector must play its part.

"Global warming is happening right now. Corporates need to say, 'We cannot ignore this anymore. If you don't do something, a major client might one day say: We will not buy from you anymore if you do not meet certain standards."

One big example of the cost of non-compliance was seen in the palm oil sector, which has to comply with the standards of the Roundtable on Sustainable Palm Oil (RSPO), which certifies sustainable

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palm oil products globally. IOI Corp Bhd's RSPO certification was suspended for about four months, from April 1 to Aug 8, following a complaint against several of its Indonesian subsidiaries. Its share price and earnings were slightly compressed just from that brief suspension.

The Business Council for Sustainability and Responsibility Malaysia is an informal grouping of more than a dozen businesses. Member companies include Boustead Holdings Bhd, British American Tobacco (M) Bhd, DiGi.Com Bhd, Lafarge Malaysia Bhd, Malayan Banking Bhd, Astro Malaysia Holdings Bhd and Sime Darby Bhd. The members meet regularly to share ideas and help each other put into practice policies and programmes that make their businesses more responsible and sustainable.

According to Tan, a lot of the initiatives involve the members' internal policies, such as operational impact on the environment, community engagement and staff development. "It is easy to say, 'Aiyah, waste of time lah.' But I think it is very meaningful. The council is driven by the Global Millennium Goals. It used to be the three Ps and now it is five Ps: people, planet, prosperity, peace and partnership. All the correct things!" he says.

Individual initiative aside, the biggest push for sustainability and responsible business practices in the country appear to be coming from the regulators. Over the last decade, the government and regulators have taken the educational approach to promoting sustainable business practices. But in recent times, regulators such as Bursa Malaysia are doing more.

Reuters

In December 2014, Bursa and the UK's FTSE launched an environmental, social and governance (ESG) index called the FTSE4Good Bursa Malaysia Index. It is aimed at encouraging best practices in the country, raising the profile of companies with leading ESG practices and supporting a broader transition towards a lower carbon and more sustainable economy.

The constituents of the FTSE4Good Index are selected from the top 200 stocks on the FBM Emas Index. These companies are then screened using predetermined ESG criteria.

By next year, Bursa will make it mandatory for listed companies to make disclosures on their respective sustainability initiatives. This is in line with the mandatory sustainability disclosure requirements of other stock exchanges around the world.

The bourses in Malaysia and Singapore have taken a similar approach by making it mandatory for listed companies to disclose their sustainability activities that are most relevant and material to the companies and their stakeholders.

Vietnam's stock exchanges, meanwhile, have taken a different approach by mandating disclosures on 15 environmental and social indicators, says PwC's Chan. "If companies do not think some of these are relevant, they do not have to disclose them, but they should state why these are not relevant. What this is trying to do is compare how they perform across the indicators. Demonstrating where they stand across such metrics is one of the key challenges in communicating value to investors."

Although sustainability reporting is a fairly recent development, Malaysia's listed companies are faring reasonably well in terms of reporting, but are laggards in terms of disclosure quality compared with their regional peers. These were the findings of a study on sustainability reporting in Asean released in July by National University of Singapore's Business School and Asean CSR Network.

The researchers looked at the top 100 main board companies by market capitalisation as at June 30 last year in Indonesia, Malaysia, Singapore and Thailand. They found that the enforcement of mandatory sustainability reporting in Indonesia, Malaysia and Thailand has proved to be effective, with 100% of the companies in three of the countries communicating sustainability.

Singapore was the exception. Only 71% of the companies reported on their sustainability activities. But this is expected to improve next year, when the Singapore Exchange makes it mandatory for companies to report on sustainability.

In terms of disclosure quality, the companies in Malaysia did not outperform its peers in factors such as governance, economic, environmental and social. Thailand was a clear outperformer with a score of 56.8, followed by Singapore (48.8), Indonesia (48.4) and Malaysia (47.7).

AFP

A man from the Indigenous Mah Meri tribe wearing a traditionally carved mask dances during a festival in Pulau Carey, Selangor

The study says Malaysia is expected to have a more comprehensive sustainability reporting landscape with the newly implemented reporting guide by Bursa.

PwC's Chan has been working with regulators and companies on 300 sustainability projects across the region. He notes that the majority of Malaysia-listed companies are at the early stage of compliance and risk management when it comes to sustainable business practices. But there are a few local companies moving beyond compliance and towards reaping operational efficiencies and creating new revenue streams by leveraging sustainability.

While part of this comes from regulatory pressures, there are international market pressures at play. Malaysian companies that do business overseas know this all too well. Malaysian companies that supply to larger buyers, which have their own supply chain sustainability policies, will find that they also have to comply with buyer standards.

"That in itself is a challenge. Can one company have different standards? It becomes difficult because it goes back to the values of the company, which might take precedence over what shareholders value. It is a difficult decision, but one that must be addressed in our globalised markets," says Chan.

SUSTAINABILITY AS AN INVESTMENT CRITERIA

Bursa CEO Datuk Seri Tajuddin Atan notes that while globally, there has been growing investor appetite for sustainable companies, it has yet to happen in Malaysia among conventional investors.

Bursa recently conducted several focus group sessions with listed companies and investors to gauge their views on sustainability reporting. What the focus groups found, especially from small and mid-cap companies that have a large retail investor base, is that the companies fear their shareholders will not be pleased to receive lower dividends if they have to incur capital expenditure for sustainability practices.

"This shows a lack of interest among conventional investors to look at sustainability in Malaysia, which could discourage listed companies from taking the agenda on board. If capital markets do not understand and reward sustainable behaviour, progress in developing more sustainable business and investment practices will be slow," says Tajuddin.

While retail investors may not have warmed up to the idea, local institutional funds are a few steps ahead. The government, via ValueCAP's ESG fund, set aside RM1 billion for socially responsible investments in 2013 to further the sustainability agenda. ValueCAP's asset management subsidiary VCAP Asset Managers, meanwhile, has received the approval of the Securities Commission Malaysia to establish a RM1 billion ESG open-ended fund called the Malaysian ESG Opportunity Fund, which is benchmarked to the FTSE4Good Bursa Malaysia Index.

Large institutional investors such as Kumpulan Wang Persaraan (Diperbadankan) and the Employees Provident Fund have also announced that they are taking into account sustainability when making investment decisions.

Khazanah Nasional Bhd is among those taking a broader view of value in its investee companies via an initiative called Project Chronos. The initiative is an attempt to measure the "true value" of companies it has invested in, said managing director Tan Sri Azman Mokhtar in his speech at a Malaysian Institute of Certified Public Accountants event in November last year.

The "true value" of an investee company goes beyond market and intrinsic financial value to include measures such as whether an investee company is generating or destroying value. They include the value it is creating or destroying for external things or stakeholders, such as the environment, staff, economic multipliers such as job creation, technology and knowledge formation and the development of the supply chain.

Azman said Project Chronos was being beta-tested by 21 companies in Khazanah's investment portfolio, which comprises about 80 companies. These 21 companies account for about 76% of the portfolio's asset value. He hopes to roll out the project in full in a few years.

"One common query, if not criticism, we encounter on this still-developing journey is how do we actually measure some of the fluffy stuff? Well, my response is a lot of accounting, such as depreciation, provisioning and goodwill, which are indeed opinions and estimates, expert opinions notwithstanding. There is no reason why we cannot have the notion of environmental auditors and expert measurement for human resources and economic multipliers," says Azman, himself a trained accountant. EB By Chua Sue-Ann

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