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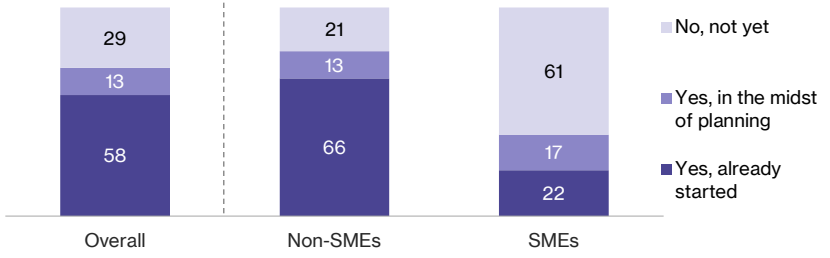
Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Executive Summary

- Majority of large firms have begun their environmental sustainability journey.
- Most are still at the nascent stages of going green, focusing only on implementing sustainability practices in select activities or functions within their business operations.
- Transition practices are mainly motivated by compliance with regulations and medium- to long-term cost optimisation.
- The main barrier to large firms adopting greener practices is not cost, but rather the perceived lack of future benefits.

71% of firms surveyed have already started or are planning on environmental sustainability initiatives

Chart 1: Does your company have plans to lower carbon footprint?
Percentage share of total respondents



Note: Majority of engagements involved large firms as non-SMEs form a higher share of GDP (61%) and tend to spearhead sustainability efforts compared to SMEs.
Source: Bank Negara Malaysia

Introduction

Transition risk has been on the rise for Malaysian firms amidst tightening regulations both at the global and domestic stages. Internationally, the European Union has introduced the Europe's Carbon Border Adjustment Mechanism (CBAM) to be implemented in phases starting with cement, iron and steel, aluminium, fertilisers, electricity and hydrogen industries from 2026. In Malaysia, the Climate Change and Principle-Based Taxonomy[1] (CCPT) has been implemented since April 2021 and is progressively being integrated into credit-related processes and decisions of financial institutions, while the Energy Efficient and Conservation Act (EECA) 2023 will soon be enforced. These regulatory changes both globally and domestically will impact Malaysian firms through increased compliance costs, rising demand for sustainable products, and significant changes in global supply chains.

In light of the regulatory changes, most large firms in Malaysia, in particular listed companies, have begun efforts to lower their carbon footprint (Chart 1). Nonetheless, there remains a gap in sizing up these initiatives across various sectors of the economy, as well as the key motivations and challenges driving firms' actions. This study, which involves interviews[2] with 97 firms (81% of which are non-SMEs) across Malaysia in the first half of 2024, aims to shed some light in this important area.

[1] For more information, please refer to the box article titled "Implementation of the Climate Change and Principle-Based Taxonomy in the Financial Sector" in BNM's Financial Stability Review Second Half 2021.

[2] Under the Bank's Regional Economic Surveillance programme, industrial engagements are carried out with the business community to gauge real-time business conditions and outlook. For more information, please refer to Bank Negara Malaysia Annual Report 2021 Feature Article on "Taking the Pulse of the Economy during the Pandemic."

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Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Almost two-thirds (64%) of firms that are going green are still at the nascent stages

Chart 2: To what extent are your environmental sustainability practices implemented?
Percentage share of respondents



Source: Bank Negara Malaysia

[3] The survey found that 68% and 51% of respondents are focusing on energy efficiency and climate-friendly innovations respectively, while about 20% are not engaging in broader climate actions. For more information, please refer to PwC's 27th Annual Global CEO Survey – Asia Pacific (2024).

Most firms focus on specific activities or functions rather than embracing a holistic approach

Nearly two-thirds of firms (64%) embarking on their environmental sustainability journey are in the early stages, either starting small or just focusing on transitioning key functions of their operations (Chart 2). This is quite similar to the experience of other countries in Asia Pacific, according to a survey conducted by PwC on CEOs in Asia Pacific[3].

Firms that **start small** mainly cite efforts to comply with the Government's regulations, such as installing water treatment plants mandated by the Department of Environment (DOE) or adhering to Bursa Malaysia's sustainability reporting requirements for listed entities. Additionally, some firms engage solely in ad hoc activities like recycling or tree replanting. These firms typically perceive limited opportunities for transition within their industries (e.g., agriculture and construction) or feel less urgency to transition as there is little demand from clients, especially within the Southeast Asian region.

As firms progress, they usually focus on incorporating small-scale clean energy source, energy conservation or waste reduction into at least one key **function** of the company. These include installing rooftop solar panels, retrofitting with LED lighting, commissioning waste-to-energy plants or reducing the use of plastic within their operations. These firms span diverse sectors, encompassing wholesale and retail services, F&B and accommodation services, oil palm plantation and manufacturing industries.

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Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Meanwhile, more than one-third of firms (36%) have progressed to relatively more advanced stages of their environmental sustainability journey.

20% of firms have embarked on clear **green strategies**, by setting internal sustainability targets and key performance indicators (KPIs) under the oversight of their top management or dedicated sustainability teams. These firms, which are typically market leaders in their respective industries, are paving the way with roadmaps toward carbon neutrality, reduced carbon footprints and innovative solutions.

A smaller yet proactive 9% of firms have gone beyond strategic goal setting by integrating sustainability deep into their **corporate culture**. They empower employees across all levels with relevant sustainability knowledge and skills and foster accountability. For example, they encourage employees to reduce their carbon footprint via better commuting practices, waste segregation and efficient energy usage. This practice is more prevalent among major energy players and sustainability-focused companies, including environmental consulting firms.

Only 7% of firms actively collaborate with sustainable partners and vendors to foster a greener **ecosystem**. These firms have introduced capacity building programs and supported their vendors to implement green projects and report their carbon footprint.

Compliance to regulations is the key driving force that speeds up firms' transition

Adherence to regulations, both locally and internationally, is the foremost motivator for firms to adopt greener practices (Chart 3). For instance, shipping firms that provide services to major international counterparts are subject to International Maritime Organisation (IMO)'s strategy to reduce greenhouse gas (GHG) emissions by ships. This obligation necessitates their transition towards more sustainable practices and technologies.

Additionally, export-oriented industries affected by Europe's CBAM policy are fast-tracking their strategies to comply with stringent environmental standards. This effort aims to avoid penalties and potential loss of market share in the future. Some firms are advocating for Malaysia to accelerate the implementation of carbon pricing mechanisms. Development of key ecosystem domestically minimises the need for local firms to pay taxes to foreign jurisdictions.

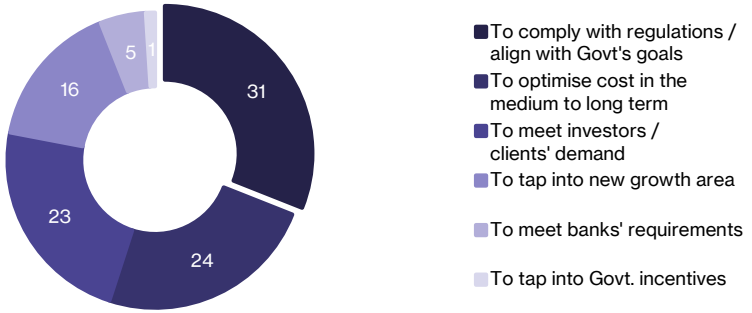
On the domestic front, firms are also transitioning to adhere to environmental standards and requirements set by the Government. A few Government-linked companies and private sector firms are seen actively realigning their operations with the Government's sustainability objectives. This trend is particularly noticeable in Sarawak, where sustainability initiatives have gained considerable momentum.

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Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

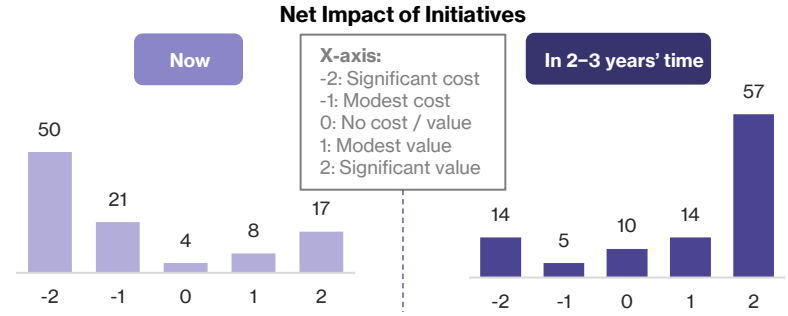
The primary drivers for transitioning are regulatory compliance and cost optimisation

Chart 3: Why do you invest in environmental sustainability initiatives?
Percentage share of respondents with sustainability initiatives



Firms with sustainability initiatives generally perceive net impact of initiatives to be of significant value in the future despite current high costs

Chart 4: What is the perceived net impact of sustainability initiatives now vs in 2–3 years' time?
Percentage share of respondents with sustainability initiatives



Source: Bank Negara Malaysia

Significant cost is not a major barrier for large firms, but can slow down progress

Cost optimisation in the medium to long term ranks as the second most important factor driving firms' actions towards sustainable practices (Chart 3). While significant costs are often seen as a potential impediment for firms when considering the transition towards environmental sustainability, these costs are typically weighed against the anticipated long-term benefits (Chart 4). Firms have cited expected future benefits such as reduced operational expenses through improved energy efficiency and minimised waste generation. Large firms, equipped with ample financial resources and strategic foresight, generally recognise that their investments now can lead to substantial savings or even competitive advantages in the longer term.

However, despite acknowledging the potential cost efficiencies, some large firms experience a slowdown in the pace of their sustainability transitions. Factors such as fluctuations in green energy tariffs or unexpected operational costs related to sustainable practices have deterred firms from accelerating their transition efforts. In some cases, these financial considerations may even prompt firms to reassess or delay their sustainability plans until more favourable conditions align with their strategic goals. Nonetheless, the overarching trend indicates that while significant costs are not a key hindrance, they can influence the speed at which large firms implement environmental sustainability measures.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Perceived lack of future benefits leads to deprioritisation of green initiatives

Half of firms that are not transitioning to greener practices cite environmental sustainability as a non-priority (Chart 5). These firms believe that the benefits of transitioning to greener practices in the future are not significant enough to justify immediate action now (Chart 6).

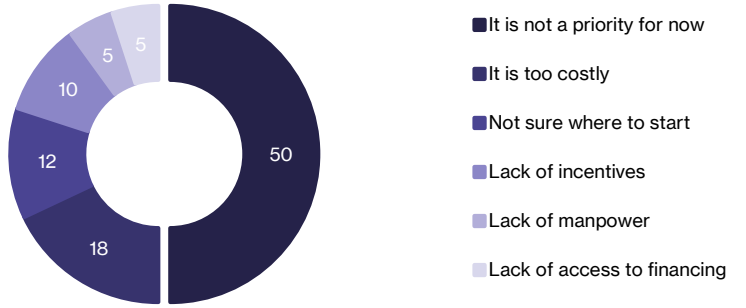
This perception typically leads firms to adopt a cautious approach, waiting for external factors like regulatory mandates to impact their industry before committing to sustainability initiatives. Additionally, some firms believe there is minimal immediate advantage in being early adopters of green practices. They prefer to observe their competitors' experiences and outcomes with sustainability initiatives before making their own commitments given the potential risks or costs involved. Several firms also perceive their industries, such as scrap metal smelters, to have limited scope to adopt sustainable practices in their business, thereby justifying their decision to not transition yet until more favourable conditions or clearer benefits emerge.

Organisational dynamics also influence decisions, with some firms citing a lack of clear direction from overseas headquarters as a reason for not prioritising environmental sustainability. This lack of internal guidance hinders proactive steps towards greener practices, as firms hesitate to invest in initiatives that may not align with broader corporate strategies.

Firms that do not transition mainly cite environmental sustainability as a non-priority

Chart 5: Why do you NOT invest in environmental sustainability initiatives?

Percentage share of respondents that have no plans to transition

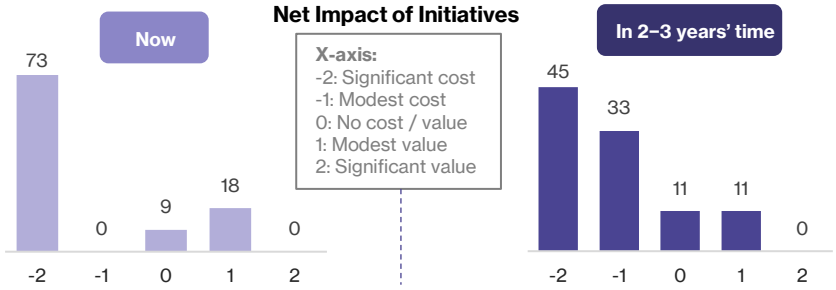


Note: Factors such as lack of incentives, manpower or access to financing are less of a concern for larger firms, as they typically do not face significant financial or operational constraints.

Firms without sustainability initiatives generally perceive any efforts to be costly with little benefit, both now and in the future

Chart 6: What is the perceived net impact of sustainability initiatives now vs in 2–3 years' time?

Percentage share of respondents that have no plans to transition



Source: Bank Negara Malaysia

Box Article

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Policy implications

Despite growing awareness and mounting pressure for firms to transition, progress remains slow, especially among the SMEs. To accelerate this transition, a multifaceted approach is needed. This should include addressing transition costs, emphasising the long-term benefits of sustainability, and strengthening regulatory support.

Alleviating transition costs

There are positive externalities to the broader economy from adopting sustainability standards, including environmental improvement and economic growth in green sectors. Nonetheless, these positive externalities take time to materialise, while the costs, especially to the firms, are immediate. These initial costs often include investments in new technologies, infrastructure upgrades, and process modifications to meet sustainability standards. To mitigate these costs for both non-SMEs and SMEs, the Government and BNM have rolled out various initiatives. For example, Budget 2024 allocates nearly RM4 bn for net zero carbon efforts. Additionally, the Green Investment Tax Allowance and Green Investment Tax Exemption have also been extended until end-2024. SMEs can also leverage on BNM's funds[4] such as the Low Carbon Transition or the High Tech and Green Facilities for financing, including for the acquisition of energy-efficient products.

Going forward, as regulatory pressures such as CBAM increase, the Government may consider providing targeted guidance and resources to help firms with life cycle assessments (LCA) and carbon accounting. Given that this process is typically expensive and often requires engagement with technical consultants, such support would be essential to make it more accessible and manageable for businesses, particularly SMEs. This support can come in the form of workshops, detailed guidelines, and tools that streamline the reporting process, ensuring firms are better equipped to meet regulatory demands and advance their sustainability goals.

Promoting long-term benefits

To effectively encourage more firms to transition, it is also crucial to reshape their perception of the long-term benefits. This involves a whole-of-nation approach to raise awareness about the potential medium- to long-term cost savings through efficient resource use, reduced regulatory compliance risks and opportunities to access new markets and capital. In this regard, the Joint Committee on Climate Change (JC3)[5] offers the ESG Jumpstart portal on its website with essential resources for SMEs to kickstart their sustainability journey. This portal features information on capacity-building programs, certification schemes, financial incentives, and more.

[4] For more information on available BNM Funds for SMEs, please refer to BNM's website.
[5] JC3 was established in September 2019 as a regulator-industry platform to pursue collaborative actions for building climate resilience within the Malaysian financial sector. It is co-chaired by BNM and Securities Commission, with members comprising senior officials from Bursa Malaysia and 21 financial industry players.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

To further support firms' transition, the Government could enhance these efforts by actively promoting success stories and case studies of firms that have successfully transitioned to serve as a motivator for others. The Government could also consider developing sector-specific sustainability roadmaps that outline clear pathways and best practices for different industries. Such initiatives can enhance firms' understanding of the tangible benefits of sustainability, thereby encouraging more widespread adoption.

It is equally important for the Government to lead by example. By implementing low carbon procurement practices and adopting sustainable development strategies for both urban and rural areas, the Government can set a standard that inspires others to follow suit. This approach not only demonstrates a commitment to sustainability but also drives broader adoption of green practices across the public and private sectors.

Providing regulatory support

The accelerated adoption of green practices by firms affected by the EU's CBAM underscores the critical role of regulation in shaping firms' behaviour. In this regard, a supportive regulatory environment that ensures consistent, predictable and pragmatic frameworks is important to facilitate an orderly and just transition by firms. In the financial sector, support is given to aid sustainability disclosures by firms. For instance, following the implementation of the CCPT, JC3 has issued guidance to ensure consistency among financial institutions and for firms to prepare in disclosing their GHG emission to financial institutions. Similar guidance has also been issued for SMEs. Additionally, Bursa Malaysia has introduced the ESG Reporting Platform in December 2023. This platform, which acts as a repository for disclosures by listed companies, will also benefit firms by providing disclosure formats that complies to Bursa's reporting requirements.

Moving forward, the Government should continue to expedite the formulation of clear and well-defined policies. Such policies include the National Climate Change bill, long-term sectoral pathways (LT-LEDS)[6] and the establishment of a carbon accounting framework that prepares the private sector towards the adoption of carbon pricing. Clarity on these fronts is essential because it provides businesses with the certainty needed to plan ahead and invest in sustainable practices, ensuring a more effective and coordinated transition to a low-carbon economy.

[6] LT-LEDS is a long-term national strategy that identifies opportunities or pathways for low-emission development that also consider broader socio-economic goals.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Conclusion

While a majority of large firms have embarked on environmental sustainability initiatives, many remain in the early stages, concentrating primarily on limited aspects of their operations. These efforts are largely driven by regulatory compliance, especially for listed companies, and medium- to long-term cost reduction objectives. The primary hurdle for larger firms in embracing broader green practices is not immediate financial outlay, but rather perceived lack of future benefits and returns on investment. Addressing these motivations and perceptions could accelerate the adoption of more advanced green strategies across industries.

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